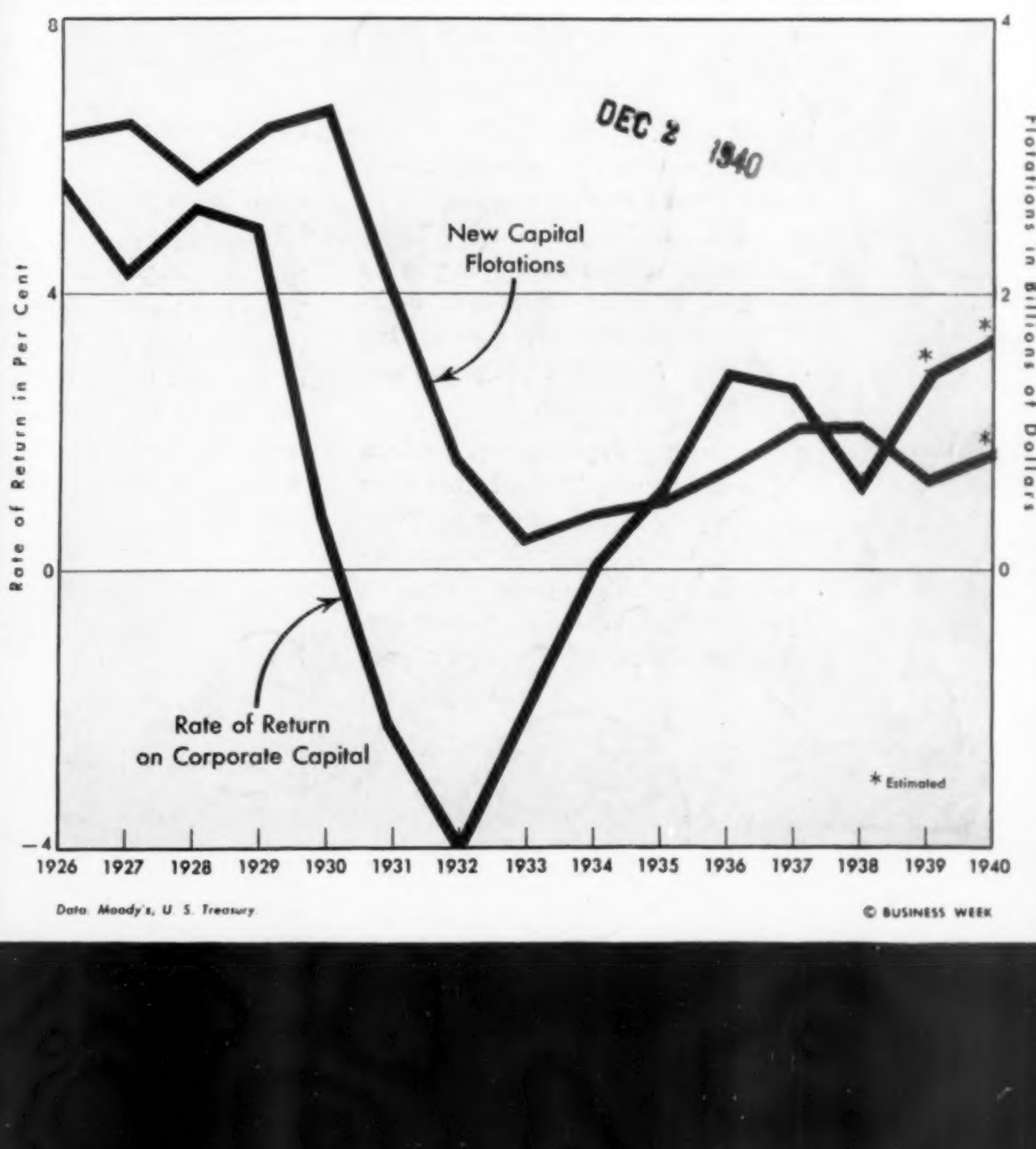
BUSINESS WEEK

WEEK AGO

YEAR AGO

CAPITAL MARKETS DEPEND ON PROSPECT OF PROFITS



Data: Moody's, U. S. Treasury

USINESS WEEK INDEX

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WASHINGTON BULLETIN
FOR BUSINESS BY BUSINESS WEEK'S WASHINGTON BUREAU

Crackdown on Labor

Roosevelt has shown his hand sufficiently to make it plain that he will get tough with labor if defense work is interfered with. Attorney General Jackson's deliberate charge that the Vultee strike was caused by Communist influence is significant (page 57). So is the President's statement that he is not asking Congress for any preventive legislation—as of today.

Obviously the White House will uphold collective bargaining but will not tolerate work stoppages of any appreciable duration. No anti-strike legislation is near, and agitation inside and outside of Congress will cool with settlement of the Vultee strike. Roosevelt's hint that such legislation will be resorted to if necessary is sufficient to stem demand for it now.

Regulation As in War

In handling labor on the basis that plants must be kept running, the White House will permit no distinction to be made between our peacetime defense program and a state of war. Adoption of a position by labor that we are not at war becomes untenable, as the President's position is supported by preponderant public opinion. Labor, like industry, must accept the necessity of defense, including aid to England.

Lewis May Make Trouble

Roosevelt can count on support from his own followers within unions to suppress and iron out controversies. Note that "chief credit" for settlement of Vultee strike was given to President R. J. Thomas of the United Automobile Workers by John Steelman, director of the U. S. Conciliation Service. The Administration expects, however, that John L. Lewis will throw his weight around in a score of unions still dominated by him in order to make things hot for the President. Officials here don't look forward with relish to negotiation of a new coal wage contract next spring.

Cooperation Today's Theme

With resort to compulsion held in reserve, the President will rely largely on "voluntary" cooperation from labor in sticking to the job of building the war machine, in extending hours, refraining from extreme demands for wage boosts, and calling a halt to jurisdictional raids by A.F.L. and C.I.O.

Despite the fact that we are not at war and England is, Administration officials see a parallel between our own situation and Britain's experience. Actually threatened with invasion, England has largely left to the labor group the responsibility for speeding up the war machine.

• **An Anti-Inflation Angle**—Keeping a damper on wage rates rests on the rather tenuous hope of keeping liberal supplies of consumer goods flowing at reasonable prices.

Bigger Conciliation Service

Sidney Hillman's suggestion, in the heat of the Vultee strike, that regional labor boards be set up to handle affairs on the ground probably will eventuate in increasing the staff of the U. S. Conciliation Service. By inclusion of arbitration clauses, as agreed to in the Vultee settlement, the Administration hopes to avoid many work stoppages.

By this procedure, employer and employees agree in advance to adhere to the findings of an arbitration board in all controversies on which the management and an employees' grievance committee fail to reach agreement. Such procedure now is standard practice in many plants.

Union Shop Not Required

"You can't get a contract unless you run a union shop." There isn't a word of truth in this oft-repeated assertion among bidders on defense contracts.

It is true, of course, that in "messy" situations the War and Navy Departments check with Sidney Hillman's office in the National Defense Advisory Commission before awarding a contract. But only if Hillman's office assumes responsibility for stating that the firm is in violation of the Wagner Act or the wage-hour law is the firm passed over by the military purchasing officers.

• **In the Works**—It is reported on good authority that Sidney Hillman is working on a restatement of labor policy governing award of defense contracts.

Tax Boosts Are Certain

Present intention is that the new tax bill, to be enacted as soon as possible after the meeting of Congress in January, will be retroactive, hitting 1940 incomes, both personal and corporation. That is the plan of Senate, House, and Treasury leaders.

Details as to rates are not agreed upon and will probably be juggled even after preliminary agreement is obtained, but one thing is sure: The boosts will hurt, for the chief object is to raise a lot of money. Also it's fairly certain that the boosts will go right down the line to the smallest taxable individual incomes, by raising the normal rate. Plans to tap defense and war profits harder are still nebulous.

Assertive Congress

Don't count on court protection from government bureaucrats because the Senate this week approved the Walter-Logan bill. New Deal spokesmen say the President will veto it. But the fact that 10 Democratic senators—eight of whom will be in the new Congress—voted with a solid Republican front for something which they knew would embarrass President Roosevelt does mean something.

This was even more spectacular on the vote to take up the bill, when 15 Democratic senators, 12 of whom will continue in the Senate, ignored the President's wish. Added to the no-adjournment vote in the House of Representatives, it means that, despite Roosevelt's victory on Nov. 5, he has no firmer control of Congress than he has possessed over the House for the last two years.

Limiting Steel Exports

Restrictions on export of iron and steel will be announced any day now. They will probably take the form of a licensing requirement rather than a flat embargo such as Washington imposed on scrap.

This will permit a slap at Japan, now in the market for some 150,000 tons of steel plate, while continuing our blandishments to Russia. A licensing plan will appease scrap dealers, who complain of inconsistency in stopping scrap while clearing iron and steel, but at the same time it will leave the Administration's hands free.

• **In the Cards**—A priority committee on steel—not necessarily to impose priorities, but to thrash out the problem of whether restrictions on civilian use are necessary—is next on the list.

Britain Will Get Credit

Only question about financial aid to the British sometime this spring is whether there will be outright repeal of the Johnson Act—forbidding loans to countries in default—or whether some other method will be used to get around

this obstacle. Britain will get credit by the time her own resources in gold and U. S. securities are exhausted, and there will be no interval between to hold up shipment of war supplies.

If the final decision is to repeal the Johnson Act, groundwork will be laid by telling the Midwest that Britain will buy foodstuffs here as well as munitions with the credits. This will leave Hiram Johnson without enough support, it is figured, to conduct even a healthy filibuster.

By-Products of War

Under the impetus of national defense "emergency" engineering is producing many developments that will be useful in post-war times. For example: reductions in the price of aluminum; advance of prefabricated housing; mass production of airplanes, which may bring the price within reach of average means; new uses for plastics; higher octane gasoline for automobiles; production of synthetic rubber; establishment of a tin-smelting industry; greater use of magnesium which will release more aluminum for more uses; increased production of ammonia for fertilizer; revitaminization of food; reduced price of high alloy steels. And it's likely that the most important developments haven't been foreseen yet.

Keeping Copper Down

Steps to insure stability in the price of copper at or near the present level are crystallizing in a definite policy. Chief implement will be foreign imports to supply the difference between domestic output and the expanding market. This technique will be used rather than permit prices to skyrocket to the 15¢–17¢ bracket.

Requirements for 1941—including both normal commercial needs and the defense load—are now estimated at around 1,200,000 tons. Profitable domestic production, with the price at or near the present 12¢ peg, is estimated to supply 90% of this.

• **Alternatives**—Either the government can buy the balance in the foreign market and invite contractors to bid on jobs made from copper supplied for the order, or the major companies, with both foreign and domestic holdings, can bring in foreign supplies to meet needs. If the latter should require a reduction in the present 4¢ import tax, this will be done. As the bulk of imports will come from Chile, this course will serve the good-neighbor policy and hemispheric defense.

Padlocking the Locks

Keystone of hemisphere defense, the Panama Canal's locks are its only vulnerable point. Work on parallel locks a half mile or so from the present ones will not be done for five or six years. Meanwhile, hush-hush mechanical measures are being taken to protect existing locks against bombardment or sabotage.

A quantity of armor plate has just been shipped to Panama, adding weight to reports that steeply slanted steel roofs are to be put over vital machinery to deflect bombs. Other reports have it that nets are to be submerged in lock chambers and raised after ships pass through to see if someone has inadvertently dropped his wallet overboard or perhaps a small time bomb.

Conscription Formula

Draft headquarters has worked out a rule-of-thumb formula by which employers—particularly the larger ones—can calculate how many of their workers will likely be called for one year's compulsory training. It works this way:

Of the total number of employees who registered for the draft, 50% will have dependents which will get them deferred status. Of the remainder, 20% (10% of the original number) will be rejected for service on physical grounds. From the rest (40 out of every 100) five will be called each year of the five years the act is in effect.

• **Advice**—To keep local boards from becoming swamped with unnecessary work, employers should not request deferment for employees considered essential to plant operations until the individual worker receives his questionnaire indicating that he will be summoned in the next draft call.

Defining Defense

Demand that the federal government build the $28,000,000 Clark Hill power-navigation project on the Savannah River under the national-defense label was taken to the White House this week by a Georgia delegation. Inasmuch as the President, the day before, had banned inclusion of non-military public works in the next budget, prospect of approval would seem to be doubtful. In any case the project may prove to be a test showing how effective public-power enthusiasts will be in getting "defense" tags put on their pet projects.

Road Funds Show Way

Tip-off on the extent to which the President means business in his plans to cut peacetime public works will come Dec. 31 when the Public Roads Administration is due to make its formal allocation to the states of federal-aid funds for the fiscal year 1941–42.

Though it has never been tested in court, the assumption is that once these allotments are formally promulgated, they become legal obligations of the government, and Congress must put up the cash to cover them. Hence if the allotments are made, it will mean there are going to be no radical cuts in public works. On the other hand, if the allotments are held up, it will not necessarily prove that real cuts are coming (since the President has long been irritated by this method of handling road money and would like an excuse to change it), but it will be an indicator.

In any case as much money, and more, as has now been authorized will be needed for defense roads. The federal-aid system is designed to channel expenditures to the primary road system, while first priority in defense needs is access roads to cantonments and munitions plants, off the primary system.

• **Next**—If federal-aid allotments are held up, next step will be a bill providing federal road money which can be spent without the requirement that the funds must be matched by the individual states.

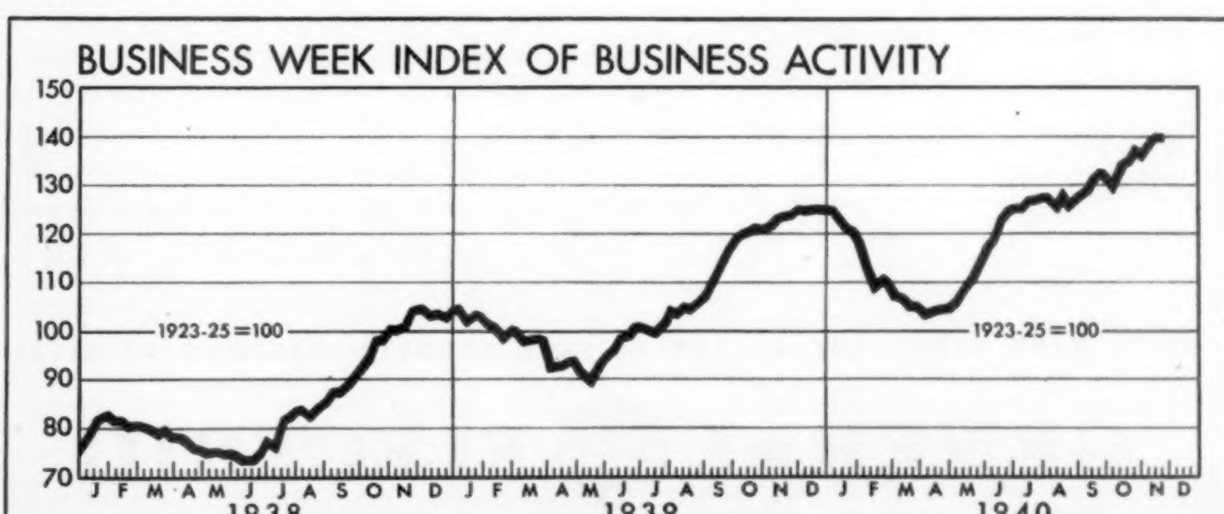
P.S.

Credit the Defense Commission with prevailing on the Army to clean up its purchases of woolen goods for the remainder of the year ending June 30 next and so informing the trade in current advertisements for bids. By such planning in defense procurement, industry is enabled to make its own plans intelligently, take care of both government and civilian needs. . . . We have previously reported, on good authority, that this country's new tin smelter would be located in New Jersey. Now we have to report on equally good authority that it will be located in Houston, Texas. The odds are even. . . . To avoid speculation and prevent price skyrocketing on institutional purchases, the Army has changed its specifications, effect of which is to put canned food bids on a net poundage basis so deliveries can be made in small as well as usual large cans. . . . If private utilities won't build power lines into Army camps the Rural Electrification Administration will. However, in most areas the companies are constructing the lines with the hope of building up a rural load by the time the camps close down. . . . Clifford A. Somerville, president of the Interstate Conference of Employment Security Agencies, brands as erroneous the report (BW—Nov.16 '40,p8) that state employment administrators are being polled on the question of whether they favor continuation of experience rating provisions in state unemployment compensation laws or abandonment of the system. . . . As anticipated, the approaching consent decree in the glass container anti-trust case breaks the Hartford-Empire Co.'s control of patents, pooling them for free use by all companies.

FIGURES OF THE WEEK

	§ Latest Week	Preceding Week	Month Ago	6 Months Ago	Year Ago
THE INDEX	*140.3	†140.5	138.4	114.1	124.6
PRODUCTION					
Steel Ingot Operations (% of capacity)	96.6	96.6	95.7	76.9	94.4
Automobile Production	102,340	†120,943	117,080	96,810	72,520
Engineering Const. Awards (Eng. News-Rec. 4-week daily av. in thousands)	$18,225	$21,485	$25,361	$9,190	$11,599
Electric Power Output (million kilowatt-hours)	2,695	2,752	2,711	2,449	2,482
Crude Oil (daily average, 1,000 bbls.)	3,766	3,577	3,640	3,836	3,818
Bituminous Coal (daily average, 1,000 tons)	1,800	1,645	1,368	1,278	1,692
TRADE					
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	77	81	85	72	79
All Other Carloadings (daily average, 1,000 cars)	47	49	50	41	49
Check Payments (outside N. Y. City, millions)	$5,617	$4,428	$4,985	$4,791	$4,700
Money in Circulation (Wednesday series, millions)	$8,436	$8,395	$8,236	$7,613	$7,434
Department Store Sales (change from same week of preceding year)	+13%	+6%	+6%	+5%	+2%
PRICES (Average for the week)					
Business Week-Annalist Cyclical Commodity Index	82.00	82.19	80.52	69.67	81.10
Spot Commodity Index (Moody's, Dec. 31, 1931 = 100)	167.7	†168.4	164.4	153.3	159.7
Industrial Raw Materials (U. S. Bureau of Labor Statistics, Aug., 1939 = 100)	121.7	122.0	118.5	112.7	125.9
Domestic Farm Products (U. S. Bureau of Labor Statistics, Aug., 1939 = 100)	122.5	122.5	119.3	114.1	112.6
Iron and Steel Composite (Steel, ton)	$38.07	$38.07	$38.07	$37.51	$37.42
Scrap Steel Composite (Iron Age, ton)	$21.00	$20.92	$20.67	$18.17	$18.58
Copper (electrolytic, Connecticut Valley, lb.)	12.015¢	†12.038¢	12.063¢	11.338¢	12.500¢
Wheat (No. 2, hard winter, Kansas City, bu.)	$0.85	$0.86	$0.83	$0.83	$0.86
Sugar (raw, delivered New York, lb.)	2.85¢	2.90¢	2.86¢	2.74¢	2.98¢
Cotton (middling, ten designated markets, lb.)	9.80¢	†9.74¢	9.36¢	10.12¢	9.63¢
Rubber (ribbed smoked sheets, New York, lb.)	21.04¢	†21.18¢	20.43¢	20.42¢	20.37¢
FINANCE					
90 Stocks, Price Index (Standard Statistics)	85.2	†87.9	85.9	73.4	99.0
Medium-Grade Corporate Bond Yield (30 Baa issues, Moody's)	4.46%	†4.47%	4.54%	5.21%	4.86%
U. S. Bond Yield (average of all issues due or callable after twelve years)	1.94%	1.96%	2.09%	2.47%	2.40%
U. S. Treasury 3-to-5 year Note Yield	0.32%	0.32%	0.41%	0.77%	0.60%
Call Loans Renewal Rate, N. Y. Stock Exchange (daily average)	1.00%	1.00%	1.00%	1.00%	1.00%
Prime Commercial Paper, 4-to-6 months, N. Y. City (prevailing rate)	½–⅝%	½–⅝%	½–⅝%	½–⅝%	⅝%
BANKING (Millions of dollars)					
Demand Deposits Adjusted, reporting member banks	21,961	21,818	21,643	20,201	18,918
Total Loans and Investments, reporting member banks	24,944	24,871	24,489	23,544	23,092
Commercial and Agricultural Loans, reporting member banks	4,908	4,895	4,746	4,394	4,388
Securities Loans, reporting member banks	909	908	874	1,018	1,117
U. S. Gov't and Gov't Guaranteed Obligations Held, reporting member banks	12,229	12,180	11,934	11,494	11,127
Other Securities Held, reporting member banks	3,605	3,605	3,665	3,488	3,348
Excess Reserves, all member banks (Wednesday series)	6,800	6,800	6,940	6,373	5,171
Total Federal Reserve Credit Outstanding (Wednesday series)	2,302	2,326	2,388	2,520	2,645

* Preliminary, week ended November 23rd. † Revised. § Date for "Latest Week" on each series on request.



THE OUTLOOK

Business Eye on Britain

New German assaults cause apprehension and drop in stocks. Importance of British buying of munitions is not to be dismissed simply because U.S. defense would take up immediate slack.

Once again sentiment is lagging behind business; once again business men hold "suspect" the current high level of industrial activity—and not so much because they think that this is just a transitory advance in business, but rather because they fear that it will not yield profits. Normally, the rapid expansion we've had in business since spring would cause a wave of general confidence and a spurt in stock prices. But, as the record shows, the industrial indexes have far outstripped the stock-market averages. The feeling is that higher taxes will cut into corporate profits and in that way render nugatory the increase in the volume of business.

• Britain's Fate—Sentiment is further depressed by apprehension over Great Britain's chances. A flush of exhilaration developed in this country when, during the summer and fall, the Royal Air Force held off the Luftwaffe; but of late the night raids against Midland industrial centers have forced cautious analysts of the business outlook to reexamine the British position—especially since the power of the British to reproduce planes and arms is now seriously jeopardized by the German attacks. This has more than counterbalanced the Greek successes in Albania.

The visit of Lord Lothian to these shores, surrounded by rumors of the urgent need for British financing in this country, has heightened bearishness in Wall Street. For not only are the majority of investors and speculators pro-British traditionally—they conceive that American interests are indissolubly linked with the United Kingdom—but they recognize also the cold dollar-and-cents inference that British survival means continued British business. And London, as the news releases clearly indicate, is not averse to this type of thinking getting around.

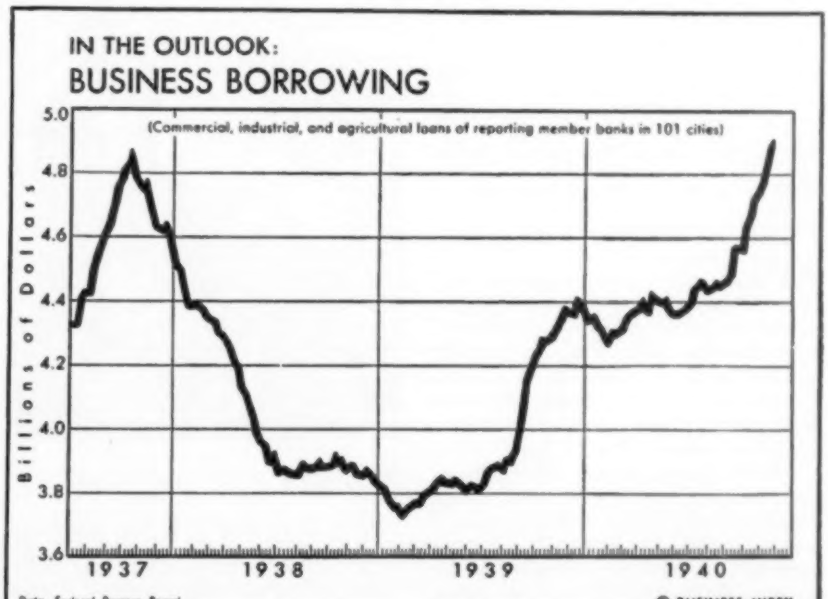
• French Funds Frozen—Although for the time being the British have sufficient gold, cash, and American securities to finance their immediate purchases, the supply of American dollar exchange is far from inexhaustible. The capitulation of France meant more than the loss of a military ally. France had a large gold stock and dollar balances, which no longer are at the disposal of the British. So the emphasis on Britain's financial plight is designed to prepare public opinion for a loan, or similar means of accommodating the British with American armaments.

There is a school of thought that tends to minimize the importance of British orders on the theory that if Britain ceases to buy arms our own defense requirements will more than take up any slack in employment, payrolls, and plant capacity. That unquestionably is true. Yet it is to be realized that currently the United Kingdom is importing merchandise from the United States at the rate of $1,200,000,000 a year—and that the rate of purchases is scheduled to accelerate fairly rapidly.

• What the Buying Means—Now $1,200,000,000 represents a lot of merchandise. Stacked against a potential $12,000,000,000 national defense outlay it does not seem large; but consider the fact that this $12,000,000,000 is not being spent all at once, that our domestic arms expenditures are running at an annual rate of, at most, $5,000,000,000. British purchases amount, therefore, to not less than 24% of current government outlays—and the tendency will be for the purchases to rise, not fall, proportionately.

• Inventory Buying—A distinction can properly be drawn between British and American purchases of arms. This country's buying is for inventory purposes primarily. When the Army, Navy, and Air Force attain a certain number of planes or rounds of ammunition—a predetermined inventory—then such purchases will taper off, if they do not cease altogether. But the British buying is for use. Planes are going into battle, and have to be replaced. Shells are being exploded.

Consequently, British buying of war goods represents the dynamic unknown in our economy today. And the longer



Normally, at this time of the year, business men would be paying off their bank loans—not increasing them; normally, the fall borrowing peak comes in October. But now for eight consecutive weeks the volume of commercial, industrial, and agricultural loans has been expanding. Quite clearly this is a part of the general trend toward bigger inventories and larger payrolls. Business organizations need more working capital, and banks are fulfilling their traditional economic function in supplying it. And what started as a tiny trickle of lending back in July (BW—Jul.27'40,p13) has now assumed the proportions of a wave. It provides an additional piece of evidence that when there is business, both banks and business men lose their timidity about enlarging their commitments.

the British are in the market, the greater is the presumption that business will hold at a high level. But if the British withdraw their orders, then the duration of the expansion in industrial activity would be cut short. Our manufacturing establishment would concentrate on meeting the inventory quotas of this country's armed forces; and at the end of a definite period of time—two, or three, or four years—the arsenal would be full and that would be the end of the business—unless we got into war and used up the inventories.

• Business Is Willing—But to date the apprehension over (a) profits and (b) Britain's chances has had no direct effect on business activity. Construction plans are going ahead—F. W. Dodge Corp. estimates that new building in 1941 will exceed this year by 14%. And business men seem willing to expand their commitments. As the chart on page 13 indicates, commercial, industrial, and agricultural loans have been rising steadily and right now are well above the level attained in 1937. The gain is traceable to working-capital loans, and not—as a few months ago—to term loans made for the purpose of refunding high-interest securities. In other words, these are real business loans in contra-distinction to long-term financing through commercial banks.

Plane Compromise

President favors present production level for commercial craft, with Army benefiting from all increased facilities.

At his Tuesday press conference, the President indicated the basis for a compromise between military and commercial orders for airplanes. He said he wanted to keep commercial aviation going at its present rate, with production of transport planes proceeding on the 1940 level.

Airline executives and manufacturers greeted the statement with relief. Both had been badly shaken up by the Army's demand (BW—Nov.9'40,p7) for stoppage in construction of all commercial planes. With a travel boom at hand, the lines were only slightly mollified by War Secretary Stimson's revision which asked that commercial transport production be held to replacements necessary for the present service.

In establishing 1940 production as the limit for commercial planes, the President would allow for considerable expansion as well as replacements. Though the airlines won't be given all the room they ask, they comfort themselves with the fact that 1940 production of commercial planes (about 245) will be the highest on record.

The Army can console itself with the President's assurance that the military will receive the benefit of all boosts over present plane production. Mr. Stimson revealed that the Army is dissatisfied with the present status. He said on Tuesday that Douglas is delivering 12 commercial planes monthly, though the company is 60 days behind on 186 dive bombers which were ordered by the Army in the spring of 1939; that the Army isn't getting enough engines for its Flying Fortresses though similar engines are going into transport planes.

F.D.R. backs the National Defense Commission in giving commercial airlines the breaks. Arguments are that the lines are a defense adjunct (since they aid the swift movement of officers, production engineers, and material), that commercial production helps Washington diplomacy (by substituting American planes and pilots for Axis outfits in Latin America).

The President's hint doubtless will be taken by Donald Nelson's Defense Commission Priorities Board which must officially settle the issue. Its Commercial Aircraft Priorities Committee is to report on the squabble.

PUNCHES FOR THE ARMY

Private Blanchard gets his complete record for the Army—number, name, qualifications, rank—punched on a card at Governor's Island, N. Y. His record is typical of millions to be punched on cards at various Army headquarters, now that modern business machines are being installed. Later on Blanchard will have similar punched cards recording every furlough, every hospitalization, every promotion. All cards will be sorted into classifications by electrical sorting machines operating at a speed of 400 cards a minute.

Sinews for Britain

Financial aid of U.S. may not involve loan at first. Deal foreseen with Canada, which is not affected by Johnson Act.

On Nov. 25, a very self-conscious group of the Sons of the American Revolution, dressed in the satin breeches and tricorn which were fashionable in 1783, celebrated on the steps of the Sub-Treasury Building in Wall Street the withdrawal of Britain's last troops from American soil 157 years ago.

On the same day Lord Lothian, the British ambassador to Washington, stepped from the transatlantic clipper at New York and told waiting representatives of the press that Britain would soon be in need of financial aid from the United States if it is to carry on the war.

• It Wasn't a Slip—Nothing more specific developed during the week, even though Lord Lothian had a conference with President Roosevelt almost as soon as he reached Washington, but insiders know that shrewd Ambassador Lothian would have made no slip. Britain, already spending more than $36,000,000 a day on this war and talking frankly of the possibility that it will continue for as long as four more years, will unquestionably need financial assistance, and probably before the end of 1941.

No direct loan can be made by the United States as long as the Johnson Act and the cash-and-carry Neutrality Law remain on the books. Senator Nye, isolationist leader, hastened to forestall any effort to repeal these acts by calling for a senatorial inquiry into the financial resources still held by the British Empire in the United States.

• Other Relief Possible—Though Washington believes that there is no question but what London will get the loan in time, the opposition may be able to delay it long enough for other relief to be granted first—probably in the form of more deliveries of destroyers and merchant ships to the British, the purchase of more Empire raw materials for stockpiles (to provide more dollar exchange), and a financial deal with Canada which will provide the Dominion with a huge loan to be used indirectly to assist Britain. Canada is not affected by the Johnson Act; many people believe this idea is already nearing negotiation.

Britain's exact assets in this country now are known to only a few people. Best estimate is that Britain, including Canada, holds gold or American securities worth nearly $4,500,000,000. Though British purchases in this market during the first war year amounted to only $780,000,000, orders negotiated or under consideration now amount to nearly $4,000,000,000.

PEACETIME CONSCRIPTS

With much band-playing and camera-clicking, scenes like this were being enacted in widely separated parts of the United States last week as first draftees were inducted into Army service. These young men are entering the gates of Fort Sheridan, Ill., preparatory to the usual processing which converts a civilian into a man in uniform. By next June 800,000 men will have passed through the gates of military camps—in-bound.

Food Is Next on Arnold's List

Nationwide antitrust inquiry, acclaimed in advance by N.A.R.G.U.S., may involve chain-store issue, but chains point out no one ever accused them of selling too high.

Another blast by Assistant Attorney General Arnold was ringing in the ears of food men when they gathered in New York this week for the convention of the Associated Grocery Manufacturers of America. For the past couple of years Arnold has dropped dark hints that when he got time and money he intended to put the food industry over the cracker barrel. The bumptious trust buster's week-end press release didn't say much that he hasn't trumpeted before but it served as notice that he means business now.

Look for grand jury action soon attacking bread price-fixing in a big eastern seaboard city. Other grand jury proceedings or investigations which lead up to them are under way in other parts of the country. In all, 18 "situations" are marked active on Mr. Arnold's blotter. Bread, milk, fish, cheese, canned and fresh fruits and vegetables are among the commodities covered in the inquiry into the activities of processors, commission merchants, organized produce exchanges and auctions, truckmen, wholesale and resale distributors.

• **Significant Prediction**—Following an audience with Mr. Arnold more than a year ago, Gerrit Vander Hooning, of the National Association of Retail Grocers, predicted with considerable satisfaction that the food field would be Mr. Arnold's next area of activity and implied that certain parties would get what was coming to them (BW—Aug. 19'39,p8).

Maybe Mr. Vander Hooning referred to the corporate chain stores, for N.A.R.G.U.S. is made up exclusively of independent retailers and voluntary and co-op chains, and Mr. Vander Hooning wouldn't be happy about anything that threatened them. N.A.R.G.U.S. is officially on record for the Patman chain-store tax bill, although it did not reaffirm its endorsement at this year's convention. One assumption is that N.A.R.G.U.S. thinks Arnold's drive might retard the chains more than the Patman bill, which, incidentally, will carry the well-known number HR 1, in the next Congress.

• **Objectives of the Bill**—The new draft will be aimed at "freezing" the growth of chain stores rather than putting them out of business. Prohibitive taxes would not become applicable unless the chains expand. Another provision would forbid retail chains from engaging in wholesaling activities.

Mr. Arnold has evinced some interest in the extensive operations of the Atlantic Commission Co., A. & P. subsidiary (BW—Nov.2'40,p30), but otherwise has not shown any signs of being choosy, and the chain stores as a whole don't seem to be very much worried. Chain officials point out in so many words that chains have been attacked for many things but never for selling too high.

• **The Safeway Incident**—Pertinent to the issues which Mr. Arnold will apparently probe is the week's news about the resignation of Safeway Stores, Inc., second largest food chain, from the Food Distributors Association of Colorado. The resignation was in protest against that association's recent vote which called for raising the compulsory minimum markup under the state unfair practices act to 12% and an added 2% for those distributors who do their own wholesaling and warehousing, according to an announcement by the company. The increased minimums are estimated as raising grocery prices about 5% throughout the state. This may be good ammunition for Mr. Arnold, but not against the chain stores.

The food investigation is characterized as the second full-scale nationwide antitrust investigation to be undertaken by Mr. Arnold, who expects it to be as hot as the building investigation which has resulted in indictments against 1,538 defendants. He describes the food inquiry as the logical successor to the building investigation, food being the next largest item in the family budget after rent.

• **Greater Difficulty Foreseen**—Department of Justice investigators apparently anticipate more difficulty in proving maintenance of artificially high prices in food than in building materials, however, and it is rather obvious to them that the press will not give this drive the support that it gave the prosecution of monopolistic practices in the building trades. Possibly this will react against Mr. Arnold's hopes of bringing home the bacon.

The food investigation is presented as a defense of the pocketbook and health of American families, particularly the millions which are said to be existing on diets so poor that they lack essential food elements. Increased returns for farmers are advertised as one of his objectives.

Among the "situations" covered by Mr. Arnold's inquiry are: abuse of state milk control laws in at least one state by the milk control board which is said to have failed to protect the right of retail stores to sell at prices below door-delivery prices; a virtual monopoly of processed cheese, with one firm said to control 80% of the national market; price-fixing of ice and intimidation of independent dealers; preparation of fictitious cost estimates by a retail grocers' association for application to prices fixed under a state law; labor racketeering in handling of fresh fruits and vegetables.

Price-Fixed Coal

Effect of floor level set by Guffey-Vinson law has been obscured by commercial buying slump and pleas for revisions.

Although government-fixed minimum prices on bituminous coal went into effect Oct. 1, results of the regulation authorized by the Guffey-Vinson act are still largely indeterminate. Two developments—neither unexpected—are responsible: (1) Commercial buying slumped sharply the first weeks of regulation because many consumers built up reserve stocks in September. (2) Hundreds of applications filed by producers for individual revisions have kept the price structure in a state of flux.

The basic objective of the Guffey-Vinson law is to put a floor level under prices so that the weighted average realization received by a producing district will approximate its cost of production. In the price structure built up, the minimums on many individual sizes to many markets are below costs. Theoretically these deficits are wiped out by prices substantially above costs on other sizes.

• **Industrial Coals Higher**—Generally speaking, however, the schedules promulgated by the Bituminous Coal Division of the Interior Department increase the prices on industrial coals. Just what this increase averages for the bituminous mines as a whole cannot be stated. More than 13,000 operators are now members of the Bituminous Coal Code, which sets up the price-fixing machinery. The schedules promulgated literally provide for hundreds of thousands of prices, and there are no authoritative over-all pre-Guffey bases with which they may be compared. Several Appalachian producers estimate the increase at 20¢ per ton, with actual reductions on some steam business.

During the last half of September, daily carloadings of bituminous coal averaged 27,144. The first half of October the average dropped to 22,292 cars. These figures are indicative but understate the slump because there has been no diminution in activity by the coal mines controlled by the steel industry. Stocks in the hands of industrial consumers increased 2,566,000 tons in September, with byproduct ovens and steel mills putting 1,058,000 tons into storage and general industry adding 1,110,000 tons to its stockpiles.

• **Reactions Still Obscured**—This falling off in buying by general industry has lessened the immediate impact of price regulation and temporarily obscured the extent and effectiveness of consumer reactions to price changes. But individual producers and districts have been flooding their district boards and the Bituminous Coal Division at Washington with demands for readjustments. In every case, the demand has been for a change which would revise the challenged minimums downward. So far, few appeals have been made to the courts for relief—which has not been granted.

Many of the appeals to Washington involve situations not foreseen during the months the Bituminous Coal Division and its predecessor, the National Bituminous Coal Division, were holding hearings on the proposed prices. A number of these cases grow out of size groupings. In an effort to reduce the number of specific prices published, several sizes in certain districts were grouped into one price class. Now, for example, producers are finding that, if ¾-in. and ⅜-in. slack carry the same price, consumers demand the larger size and the smaller coal is a drug on the market. Temporary relief pending further hearing has been granted in a number of cases.

• **Rivalries Between Districts**—Appeals involving the competitive relationships between two or more producing districts, however, present a more ticklish problem. Any changes made in such cases may have far-reaching effects. Under the law, the bituminous coal fields of the country are divided into 22 producing districts. These producing districts in turn are grouped into nine minimum-price areas. The largest of these areas covers the Appalachian region, which supplies about 75% of the national bituminous output.

Base prices for each producing dis-

What Happened to American Cities, 1930-1940

32 gained over 50% in population.

	% Gain	1940 Population		% Gain	1940 Population
Hobbs, N. M.	1,679.4	10,641	Idaho Falls, Idaho	59.5	15,036
Miami Beach, Fla.	321.0	27,340	Maywood, Calif.	57.2	10,683
University Park, Tex.	243.4	14,423	Garden City, L.I., N.Y.	56.3	11,225
Longview, Tex.	173.4	13,766	Victoria, Texas	55.9	11,567
Panama City, Fla.	114.4	11.584	Miami, Fla.	54.4	170,877
Corpus Christi, Tex.	107.1	57,443	St. Clair Shores, Mich.	54.1	10,391
Burbank, Calif.	104.6	34,090	Gadsden, Ala.	54.0	37,014
Ft. Lauderdale, Fla.	103.6	17,643	Lubbock, Tex.	53.9	31,588
Hickory, N. C.	83.2	13,488	Borger, Tex.	53.2	10,006
Santa Fe, N. M.	81.1	20,237	Inglewood, Calif.	53.0	29,813
S. Charleston, W. Va.	74.9	10,324	Bryan, Tex.	52.7	11,929
New Iberia, La.	71.8	13,746	Wilson, N. C.	52.3	19,213
Austin, Tex.	65.4	87,878	Teaneck, N. J.	52.2	25,130
Tyler, Tex.	65.1	28,256	Reidsville, N. C.	51.7	10,394
Hempstead, L. I., N. Y.	64.9	20,859	Beverly Hills, Calif.	51.2	26,346
Lodi, Calif.	63.5	11,100	Tallahassee, Fla.	50.4	16,097

12 Others lost over 10% in population.

	% Decrease	1940 Population	1930 Population
Hoboken, N. J.	16.3	49,603	59,261
West Frankfort, Ill.	15.8	12,367	14,683
Hoquiam, Wash.	15.3	10,810	12,766
Aberdeen, Wash.	14.3	18,624	21,723
Hannibal, Mo.	12.7	19,863	22,761
Anaconda, Mont.	12.7	10,908	12,494
Bayonne, N. J.	11.3	78,905	88,979
Hamtramack, Mich.	10.9	50,160	56,268
Port Arthur, Tex.	10.6	45,500	50,902
Chelsea, Mass.	10.4	41,069	45,816
Carteret, N. J.	10.3	11,962	13,339
Independence, Kan.	10.3	11,468	12,782

Tabulations of the latest figures from the Bureau of the Census lend support to evidence that the population trend in this country has been away from metropolitan areas to suburban areas and to small or medium-sized cities—10,000 to 100,000 population. The first tabulation (above) shows that the biggest gains were scored in the South and Southwest—notably in Texas, California, and Florida. The phenomenal gain of 1,679.4% registered by Hobbs, N. M., the nation's fastest growing town of the last decade, can definitely be accounted for by an oil boom. This supports the theory that the population moves where the dollars are. The lower table again emphasizes the trend from North to South.

SKI TROOPS

Picked men from the 41st Division at Camp Murray, Wash., went through their first snow maneuvers last week on the slopes of Mt. Rainier, as the Army inaugurated its ski troops. The troops practiced cross-country skiing, carrying small packs, rifles and other regular lightweight equipment—but because the Army is not yet equipped with skis, most of the men used their own. Evidence of the emphasis that is to be placed on training American infantry to maneuver in heavy snow, however, can be found in the Army contracts announced this month, which include 3,800 pairs of skis and ski poles, 2,300 pounds of ski wax, and 6,800 pairs of snowshoes.

trict within a minimum-price area are supposed to be so adjusted that each mine within that area has a fair opportunity to compete in common consuming markets. Minimum prices for each district are first proposed by the district board, chosen by the producers and including one representative of organized labor in its personnel. These prices are coordinated with other district prices for the minimum-price area. Initiative in coordination rests with the affected district boards, but much of the work has been done by the government. A change in one set of prices might conceivably upset the entire adjustment.

• **Only a Floor Level**—Minimum prices fixed by the Bituminous Coal Division include no allowance for profit. Legally they are not actual prices, but only establish a floor level below which no code member may go. Maximum prices above which no coal can be sold may be set, however, whenever the division believes such action in the public interest. For the present, the question is how to make many mines—particularly some of the smaller truck operations—observe the minimums established.

While opposition by operators has not disappeared, it is much less vocal at the present time and some of the original objectors have joined the camp of those who say that the statute should be given a fair trial. If the prices fulfill their promise of improving the balance sheet of the industry, there will be a vigorous demand for an extension of the law, which expires next April.

Television Grows

But expansion program, totaling $3,000,000, probably won't become actual till FCC authorizes commercialization.

When a company applies to the Federal Communications Commission for permission to erect a television station—and none can be erected without FCC approval—it is required to outline a substantial program of research. Last week, the FCC released a list of ten new station authorizations together with information about the development programs which each of the assignees expected to undertake. The top figure was a reported $2,000,000 to be expended by Hughes Production Division of the Hughes Tool Co. in experimentation and program production; presumably, Howard Hughes' Hollywood interests would cooperate closely in this activity. The other nine licensees reported contemplated expenditures totaling $1,000,000. These funds added to previously announced commitments brought the total budgetary estimates for television research to $8,000,000.

• **Await FCC Action**—FCC's news of the projected big spending on television had an ironic twist in the eyes of the industry because actual television expenditures have everywhere been pared pending FCC action on commercialization of sight-and-sound broadcasts.

The communications commission apparently regards a million-dollar outlay as fully adequate to justify award of a license. However, many of the stations authorized, notably those granted to the colleges (Kansas State, Iowa State, and Purdue), have more modest budgets. The entire investment in television to date has been estimated at between $10,000,000 and $20,000,000, spent over a period of ten years. This money was spent in the hope of an eventual commercial service which would permit recouping the investment. Now that commercialization is

TELEVISION LICENSES

Hughes Production Division of Hughes Tool Co. (Los Angeles and San Francisco)
Columbia Broadcasting System (Los Angeles, Chicago and New York)
Earle C. Anthony, Inc. (Los Angeles)
Leroy's Jewelers, Inc. (Los Angeles)
May Department Stores Co. (Los Angeles)
Television Productions, Inc., subsidiary of Paramount Pictures (Los Angeles)
Metropolitan Television, Inc. (Bloomingdale's and Abraham and Straus, New York)
Kansas State College (Manhattan, Kans.)
Balaban and Katz Corp. (Chicago)
Bamberger Broadcasting Service (New York)
Crosley Corp. (Cincinnati)
Allen B. DuMont Laboratories (New York, Washington; Passaic, N. J.)
Don Lee Broadcasting System (Los Angeles, Hollywood, San Francisco)
First National Television, Inc. (Kansas City, Mo.)
General Electric Co. (Schenectady)
General Television Corp. (Boston)
National Broadcasting Co. (New York, Philadelphia, Washington)
RCA Mfg. Co. (Camden, N. J.)
Philco Radio and Television Corp. (Philadelphia)
Purdue Univ. (West Lafayette, Ind.)
Radio Pictures (Long Island City, N. Y.)
State Univ. of Iowa (Iowa City, Ia.)
WCAU Broadcasting Co. (Philadelphia)
Zenith Radio Corp. (Chicago)
The Journal Co. (Milwaukee)

under a cloud, the justification for the recently announced figures seems slight, especially since the programs for which the money is to be spent are all avowedly experimental. No commercial activities are contemplated in the applications before the FCC.

• **Stations Authorized**—The experimental television stations for which construction has been authorized now number 34 (table, page 17). Of the ten most recently announced authorizations, six have received assignments in the "Group B" channels, for which commercial television receivers now contemplated will not be equipped.

The current emphasis on big spending in television can only be explained by the hope of the applicants, in the first place, that willingness to spend money on research is sufficient evidence of good faith to secure the granting of a license which will in time prove very valuable, and, secondly, in the hope that the deliberation of the National Television System Committee, which is now working out television standards, will result soon in a lifting of the FCC ban on commercial sponsorship of television programs.

Current news in frequency modulation broadcasting is the appearance of "modernizer units," like the one advertised this week by Davega, which will convert a good-quality standard broadcast receiver into an FM receiver. Though these converters can deliver a program only as good as the loudspeaker of the set to which they are attached will permit, they offer a comparatively inexpensive way of providing FM service to owners of good standard sets. Good-quality console sets having both FM and standard circuits start at about $175. Cheaper combination models are expected soon.

Building at High

Construction of homes and plants moves at fast pace with heavy defense housing ahead. Costs may be drag later.

A while back, when conscription became the topic of the moment and warflares were seen closer to our shores, there was a lot of talk about how the construction industry was going to suffer, especially residential building. England was cited as an example of the cessation of home construction under the impact of war with young men going to barracks and family life broken up by uncertainties as well as by bombs.

• **Biggest Since 1928**—That talk hasn't cut any ice so far. In fact the Dodge reports reveal that the $148,469,000 of construction contracts awarded last month for residential building were largest for any October since 1928. And about three out of every four of these dollars went for single-family dwellings.

Decision to hasten home construction has, no doubt, been encouraged by the growing belief that delay will necessitate payment of higher building costs. But such apprehension had to be bolstered by ability to pay, by higher pay rolls and by increased employment, before prospects would sign the final papers (BW—Nov.16'40,p13).

Savings and loan associations, the largest single group of lenders of home mortgages, report record high post-depression peaks in borrowings for home construction.

• **Defense Housing**—Recently about $350,000,000 of government funds, to be matched by an equal amount of private investment, has been made available for defense housing expected to produce between 160,000 and 200,000 new dwelling units at $3,500 each. These will house families of enlisted personnel and of civilian employees of the armed services, also the families of employees in private industry engaged in defense production.

The National Defense Commission reported last week that $2,000,000,000 worth of federal defense construction was in prospect by June 30, 1942. Most of it will go to the War Department to be spent for training camps, army posts, airbases, and munitions plants. The bulk of the remainder will be spent by the Navy. The Commission also estimates that private factory construction during 1940 and 1941 probably would total an additional $830,000,000.

• **Industrial Building**—Industrial plant construction contracts awarded in October were almost double the total for any other October since 1931 and were greater than in any similar month since 1929. In fact, with the exception of last July, industrial building last month was largest of the year.

Engineering construction awards for the week ended Nov. 21 totaled $74,657,000, according to Engineering News-Record. In dollar volume, public building was about five times greater than private construction. Total for the week was 57% greater than for the similar 1939 week, but public construction had increased about 2½ times where private construction dipped 39%. For the year to Nov. 21, total construction was 27% ahead of the like 1939 period.

The F. W. Dodge Corp. expects building volume next year to be $4,400,000,000, highest since 1930 and 14% ahead of 1940 estimates. Uncertain factor and possible drag on activity is the rise in construction costs, already showing up in lumber, labor, steel products.

BILLIONS FOR BUILDING

The $2,000,000,000 of federal expenditures are alloted for defense construction as follows:

$631,000,000 for shelters for trainees;

$520,000,000 for "productive facilities" (plants for building airplanes, engines, armor, tanks, ammunition, and ships);

$337,000,000 for air bases;

$258,000,000 for sea-coast defenses and work at military and naval stations;

$240,000,000 for defense housing (private funds supplement this).

More than $1,000,000,000 of this work already is under way.

In addition, the Reconstruction Finance Corporation has authorized loans of $175,000,000 to private industry for defense construction, mostly for aircraft manufacture. The Civil Aeronautics Authority has $40,000,000 for civil airports; the Work Projects Administration, $40,000,000 annually for airport work. And the Panama Canal is building an extra set of locks.

OLIVE OIL BOOTLEGGED

War stoppage of olive oil imports from Mediterranean countries has created a paradise for bootleggers, according to Milton P. Duffy, inspection chief of California's state health department.

The bootleggers in the Golden State work among people of foreign birth, offering substitute and adulterated oil with fancy Italian labels. In some cases they maintain a plant as elaborate as that used by liquor bootleggers in prohibition days. One outfit prosecuted by the state sold for $2 a gallon a mixture of 95% cottonseed and sesame oil, with 5% olive oil, costing about 65¢.

Denver Gas Quiz

Federal Power Commission looking into rate city pays for fuel brought from Texas over tri-corporate pipe line.

With emphasis on Rocky Mountain regional practices, some chapters in the history of some of the nation's biggest public utilities are being aired in a bitter, loud-talk hearing in Denver. Examiner Norman B. Gray of the Federal Power Commission is presiding at the witness table.

Primarily, the hearing is to determine the fairness of the 40¢ gate rate charged Denver and neighboring cities for domestic gas brought from the Texas Panhandle through the pipe line of Colorado Interstate Gas Co. Denver complains of the $1.85-for-the-first-thousand, 80¢ average rate charged consumers by Public Service Co. of Colorado, and seeks to bring down the gate rate to get lower retail rates.

The hearing, which has exploded all over the map, is being held after a bitter two-year legal fight. The companies involved carried to the United States Supreme Court their contention that they were private organizations and did not come under the federal Natural Gas Act of 1938. They were licked.

• Three Corporate Parts—The pipe line under discussion runs 600 miles from the world's greatest gas field, in the Texas Panhandle, through Denver to cities in Wyoming. It is segmented by ownership into three corporate parts:

(1) Canadian River Gas Co., nonprofit, which belongs to Southwestern Development Co.—51% owned by Sinclair (Consolidated Oil) and 49% by Mission Oil, delivers the gas to Clayton, N. M.

(2) Colorado Interstate takes the gas from Clayton to the Denver gate. Interstate is 42½% owned by Standard Oil of N. J., 42½% by Southwestern Development Co., and 15% by Public Service Co. of Colorado, operating auxiliary of Cities Service.

(3) Colorado-Wyoming Gas Co. controls line from Denver into Wyoming.

• A Bit of History—In connection with Segment No. 2, the hearing brought out this bit of history: Interstate was anxious to build the line, but could not do so without the rich Denver market controlled by Cities Service. Cities Service was hard to get, but ultimately was given 15% to let natural gas come into Denver. It sold this stock interest to Public Service Co. for $1,875,000, and so the Denver retailer owns part of the wholesale line.

Main contention of the companies against rate reductions is that the lines were expensive to build ($16,000,000 is the estimated cost to rebuild the Interstate Line) and that the supply of gas is diminishing. The cities concerned challenge the cost argument and contend that the gas is inexhaustible.

• Commission Carries the Ball—The Federal Power Commission is investigating on its own initiative. Denver's complaint was originally filed in December, 1938, when Mayor Benjamin F. Stapleton, never unfriendly to Cities Service, was up for re-election. The city has not been remarkably active, but the commission has. A third party is the Wyoming Public Service Commission.

One revelation is that Standard Oil of N. J. paid the late Fred G. Bonfils, publisher of the Denver Post, $350,000 in October, 1927, to win his paper's support for natural gas.

This item was incorporated in pipe line capital costs, according to testimony. So, too, was $50,000 paid Milton Smith, Denver lawyer, now dead, for legal fees and for "influencing" Mayor Benjamin F. Stapleton of Denver to accept the gas rate ordinance. Another $26,750 included in capital costs was paid by Interstate to Cities Service for services of the latter's engineers and other employees in connection with the rate ordinance.

• Coal Industry Looks On—While not a direct party in the proceedings, the Colorado soft coal industry is interested. It has been cut one-third already by gas competition and is fearful of worse competition from cheaper gas. Industrial gas sells for as little as 15¢–16¢ to big outfits like Colorado Fuel and Iron Co.

Pipe Line Balked

Rail and port interests get Georgia court decision that prevents completion of 454-mile project in South.

Down in Georgia those ancient enemies, the railroad and the pipe line, have locked horns again. This time it is a question of eminent domain with the pipe line under attack.

Southeastern Pipe Line Co. (controlled by Gulf Oil and Pure Oil) had almost completed a 454-mile gasoline line from Port St. Joe, Fla., through Atlanta to Chattanooga. The work has been stymied by a decision of the Georgia supreme court, which held that the company had not been granted legislative authority to cross railroads and highways or to condemn property.

• Charges and Denials—Southeastern Pipe Line is considerably put out by the ruling. It points out that neighboring states have granted the right of eminent domain and that usually railroads permit pipe lines to cross their rights of way as a matter of course. Pipe line ads protest that this opposition is impeding progress. The national defense argument also is raised.

Fight against the project is being waged by railroads and port groups whose business would be injured by the gasoline line. They contend that a pipe line is not truly a common carrier (since

SOLDIERS IN SCHOOL

Because of the increasing use of Diesel engines in war machines, the United States Army has selected 100 soldiers from the mechanized cavalry and tank regiments stationed at Fort Knox, Ky. and Fort Benning, Ga., and signed them up for an eight-week course on the operation and maintenance of Diesel engines at the Hemphill Diesel School in Chicago.

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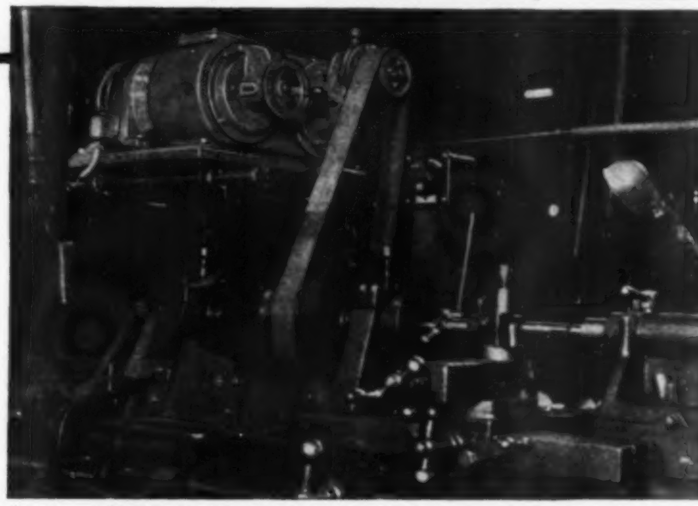
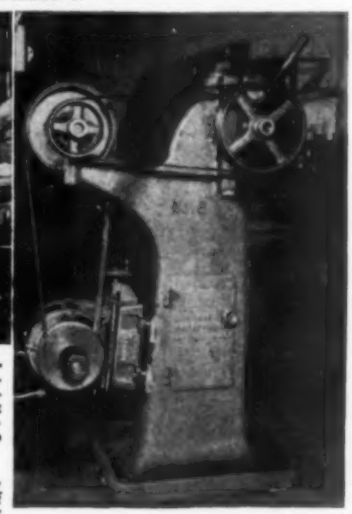


Above—REEVES Motodrive installed on lathe. This popular drive combines in one compact, self-contained enclosure—constant speed motor, speed-varying mechanism, and reduction gears (where required). Available in space-saving horizontal and vertical designs—¼ to 10 h.p. Speed ratios 2:1 to 6:1 inclusive.

Above—REEVES Variable Speed Transmission driving milling machine. Transmission provides infinite speed adjustability over wide range. Accurate and positive at all speeds. Modern, compact open and enclosed designs; vertical and horizontal—¼ to 78 h.p. Speed ratios 2:1 to 16:1 inclusive.



Right—REEVES Vari-Speed Motor Pulley on gear lapper. Simplified development of Transmission. Mounts on standard shaft of any constant speed motor. Forms direct drive to machine. Sliding motor base is moved forward or back for speed changes. Ten sizes—¼ to 15 h.p. 3:1 speed range.

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Your old machine tools can be brought up-to-date—given new life and versatility, made to turn out more work than you ever thought possible—simply by equipping them with REEVES Variable Speed Drives.

With a REEVES drive, the operator can always run his machine at the most efficient speed for each job and each changing condition. He can speed up or slow down, exactly as required for each cut or drill, for various depths of draw and for different production schedules. This *complete* flexibility is not possible with step cones, gear boxes, slip clutches, variable speed motors or other devices.

REEVES Variable Speed drives save on set-up time because speed changes are made without stopping to shift belts and change pulleys. Ease of control (handwheel or push button) encourages operators to change speeds when required.

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REEVES PULLEY COMPANY, Columbus, Indiana

EXAMPLES

● In a mid-western plant, production increases ranging from 28% to 55% were secured on a battery of punch presses—and high quality of product maintained—by speeding up the presses through REEVES Motodrives.

● A large machine shop in Cleveland says, "We bought two REEVES Transmissions, one for a boring mill and one for a radial drill. Right from the start both machines began turning out more production. In the case of the boring mill, we estimate efficiency is increased at least 25%."

● A Cincinnati company, equipped a three-way valve facing machine with a REEVES, increasing production from 50 to 80 valves per day, with *no increase in labor cost.*

● At a metal working plant in Indianapolis, a REEVES Transmission, installed to give complete speed flexibility in operating a multiple drill press, doubled the production of this press and widened work range.

(Many other examples given in new Bulletin offered at right.)

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Where Defense Contracts Are Distributed

Statistics released this week by the National Defense Advisory Commission on geographical distribution of major defense contracts to Nov. 1, showed that, although the largest dollars-and-cents total, $2,090,227,000, has been placed in the Middle Atlantic Region (New York, New Jersey, and Pennsylvania), big chunks of defense money have been allocated to all six continental regions. Even off-continent territories have come in for their part of the expenditures—mostly for Army and Navy bases.

The breakdown does not include figures on sub-contracts by which raw materials and sub-assemblies are provided for main contractors—figures which would emphasize even more the spread of defense orders throughout the industrial structure of the United States. The additional spread of such sub-contracts was graphically illustrated by a case study two months ago (BW—Sep.28'40, p28) which showed that as many as 70 basic raw materials and parts and accessories were brought from all 48 states to construct the big Boeing Flying Fortress bombers.

In addition to the following statistics, figures can be obtained from the Commission showing totals for specific industrial areas within each geographical region. In each case, 000 is omitted from the following figures.

Geographical Region	*Ship Construction*	*Other Construction*	*Airplanes, Engines, etc.*	*Ordnance and Ammunition*	*All Other Manufacturing*	*Total*
New England..............	$861,268	$112,146	$134,403	$158,833	$55,828	$1,322,478
Middle Atlantic............	1,046,641	80,686	217,724	419,519	325,657	2,090,227
North Central..............	96,430	91,348	190,149	390,574	245,198	1,013,699
South Central..............	116,804	149,258	1,960	52,051	12,582	332,655
South Atlantic.............	590,338	170,168	229,918	137,366	43,407	1,171,197
Pacific Mountain...........	518,657	126,856	725,337	13,046	12,864	1,396,760
Off Continent..............	720	78,649	......	......	124	79,493
Subtotal	3,230,858	809,111	1,499,491	1,171,389	695,660	7,406,509
Unassigned	934	30,479	2,963	66,556	109,209	210,141
Grand Totals	$3,231,792	$839,590	$1,502,454	$1,237,945	$804,869	$7,616,650

it is restricted to petroleum products), hence that it does not rank with public service corporations justified in the exercise of eminent domain. It is further pointed out that such companies are not allowed to extend their facilities without the O.K. of governmental bodies which justify the additions as providing new or better services to the public.

• **Lining Up for a Fight**—Struggle over the question will be carried to the Georgia legislature when it meets next January. Oil interests are expected to have a bill introduced which will clear up present ambiguities or provide specifically for exercise of right of eminent domain by pipe line companies. Both sides gird for the fray. The railroad camp claims that a legislative majority opposes the pipe line.

Southeastern Pipe Line officials deny campaign charges that their project would deprive competing railroads of 10% of their revenue and that it would create unemployment.

Oil Law Upheld

Kansas ban on exceptions to proration is backed by federal judges. Independents and co-ops lined up against measure.

Biggest oil controversy in Kansas in recent years has been waged over the "no special allowables" clause, which was tacked on to the state's proration law early in 1939. Before the law was amended, exceptions were made which permitted certain wells or pools to produce in excess of what would have been their monthly allowable production (a percentage of the potential of all oil production within the state). The object of these exceptions, or "special allowables," was to enable particular wells or pools to supply near-by refineries with sufficient crude for continuous operation.

The "no special allowables" amendment was sponsored by the Republican state administration in the face of vigorous opposition from independent producers and refiners.

• **Upheld by U. S. Judges**—Ever since the law was revised, the major producers and refiners who supported the amendment have had their fingers crossed lest it be declared unconstitutional. This month, they uncrossed their fingers when a three-judge federal court upheld the measure.

In effect, the judges (in a two-to-one decision) sided with the bigger oil firms, who insisted that all pools should share alike, and that if the little independent refineries couldn't find enough crude in their own backyards they could build pipe lines to distant fields, just as the big companies have done.

• **Injunction Dissolved**—Soon after the "no special allowables" feature of the Kansas law went into effect, it was challenged by Bay Petroleum Co., Denver, owners of production in the Otis pool (Barton and Rush counties, Kansas) and suppliers to Bay Refinery, McPherson, Kan. A temporary order restraining Kansas Corporation Commission, which administers the proration law, was obtained in a federal court. This injunction was dissolved by the recent decision of the judges.

The dissenting judge was Walter A. Huxman, Democrat, who was defeated for reelection in the Kansas gubernatorial race by Payne Ratner, sponsor of the amendment. In his opinion, Huxman (a Roosevelt appointee) said: "If the state may divide and allocate markets to different consumers or producers disassociated from some form of waste, then we have destroyed the last remaining vestige of free enterprise and have completely regimented the oil industry."

Latest declaration of war against the now federally-approved proration law comes from the Consumer Cooperative Association (wholesale), North Kansas City, Mo. C.C.A. owns several producing wells, a pipe line, and a refinery in Kansas.

• **Oil Everywhere, But**—Last spring, a few weeks after the opening of the world's first completely cooperative refinery (a C.C.A. subsidiary) at Phillipsburg, Kan., the management was unable to buy 3,000 bbl. of crude per day in a state capable of producing 5,000,000 bbl. (BW—Jun.15'40,p23). The refinery was closed while co-op officials argued with the Kansas Corporation Commission authorities over an alleged promise of sufficient crude supplies. Finally, to insure continuous supplies, C.C.A. bought an interest in some proved acreage and extended its pipe line 22 miles. It is almost certain that the co-ops and the independent producers and refiners will join forces in an effort to rewrite the Kansas law.

MARKETING

United Shoppers

Giveaway retail guides invading national advertising with network which expects to enroll 100 papers by Jan. 1.

Though national income this year will be within 10% of what it was in 1929, newspaper advertising is only about two-thirds of what it was in the lush 'twenties. If the average agency man had to compress the reason for the decline of newspapers into one word, he would probably say, "Radio." But there are other factors. One of these is certainly the rise of giveaway shopping papers or advertising guides, known to the trade as shoppers.

Last week any newspaper publisher who happened to see the trade paper Advertising Age had evidence that the threat of shoppers is likely to grow greater before it grows smaller. The evidence came in the form of a full-page advertisement signed by James A. Coveney Co., the selling representative of Shopping Newspapers, a national network of shoppers that was put together some eighteen months ago.

• **"So Encouraging"**—The ad, starting a series that will be the first trade paper promotion done for the network since the formal introductory announcements, said: " . . . progress has been so encouraging, in recognition and results, that we want to give the good news to a wider audience of national advertisers."

The basic idea of shopping newspapers is controlled circulation—which entails free distribution—and that idea is as old as the hills. But the modern shopper as a threat to big-city newspaper publishers dates back only to 1921. In that year, a group of Cleveland merchants founded the Cleveland Shopping News. It was so successful that one of its merchant-backers quit his business and started the Pittsburgh Shopping News. Now of the ten largest U. S. cities, only New York and Philadelphia are without shoppers.

• **Number Keeps Growing**—How many shoppers there are throughout the country is a guess, for the idea of selling national space in them is still so new that no one has as yet undertaken the job of regularly auditing them. A few years ago the Audit Bureau of Circulations talked the matter over, and decided to continue to refuse membership to free circulators. But, not counting the small daily newspapers which pad their paid circulations with free distribution, there must be several hundred successful shoppers—and the number grows yearly.

The network Shopping Newspapers, which represents the first serious attempt to sell national advertisers on the use of shoppers, is the responsibility of James A. Coveney. Formerly, Coveney was a partner in the George A. McDevitt Co., one of the biggest firms selling national space for newspapers. He says a consumer buying survey conducted seven or eight years ago for the Cleveland newspapers first got him excited about shoppers.

• **Question and Answer**—The survey was mainly concerned with such matters as consumer incomes and brand preferences, but it also asked this question of housewives: "What medium do you most rely on for advertising information about the products you buy?" According to Coveney, the Cleveland Shopping News got more mentions than all other media combined.

About that same time, Professor Charles Bellatty, head of the department of advertising of Boston University, questionnaired leading merchants in cities that had shopping papers. The several hundred letters he received in reply were published under the title, "What They Think of Shopping News." Although the merchants didn't all agree in their appraisals, the net result was a paean of praise for shoppers. And the inference that Coveney drew was that if local retailers found shoppers a profitable medium, so would national manufacturers.

• **Looking over the Field**—It was not

Just Say: "As Advertised in the Advertiser"

Oklahoma City Advertiser

TESS' TEA TABLE TALK

Clothes Drive Date Set

Who Will Carry the Land of Oz?

We Need A Man On The Job

Grown-Ups Needn't Look So Superior—Little Ones Also Voting on Their Favorites

Election's In The Bag, Says Congressman

Grocers Plan Big Food Show November 12

Some shopping newspapers carry news items, and imitate the make-up of a daily paper, as the 24-page Oklahoma City Advertiser does—

DOWNTOWN SHOPPING NEWS

For Monday, Tuesday and Wednesday Shopping

We're starting November with a paper filled with ads offering a wide variety of timely merchandise and invite you to make up your shopping list from it.

—while others stick strictly to advertising, like the 28-page Chicago Downtown Shopping News. It comes in four sections.

until 1938, however, that he took the first step toward putting the idea to test. Then a man was sent on a tour of the country to survey the existing shoppers, find the successful ones that used what Coveney thought were sound circulation methods, and see how they felt about accepting national advertising.

The privately-owned shoppers were enthusiastic; the merchant-owned shoppers less so. Where retailers had established the papers, they had done so not for profit but to get an economical medium, one which they weren't too anxious to share with manufacturers. And, although the large majority of all shoppers are privately owned, those in the very big cities are mostly merchant owned.

• 100 Shoppers by January—However, when Coveney published the first rate card for Shopping Newspapers in the spring of 1939, it carried the names of 40 important shoppers. The current rate card has 70, and a new one coming in January will have at least 100. Still outside the network are big shoppers in Washington, Dayton, Omaha, San Francisco, Oakland, and Cincinnati; they continue to refuse national advertising.

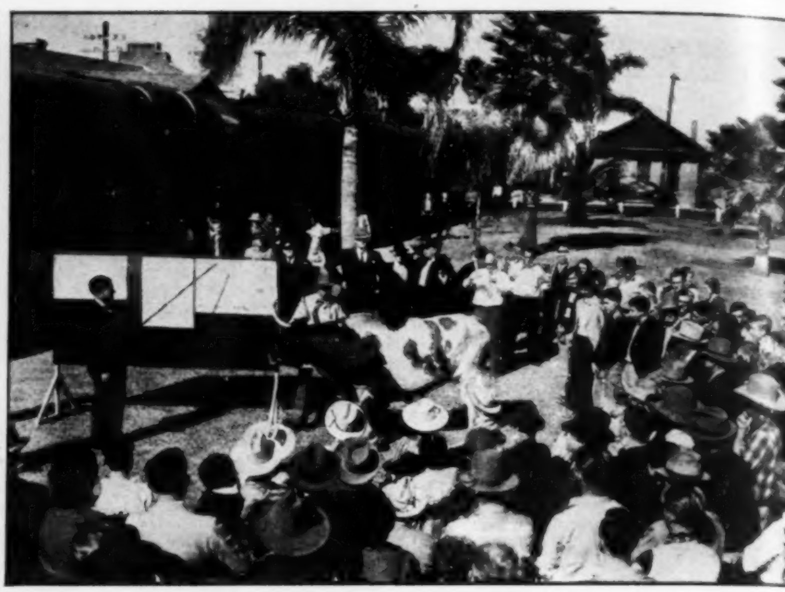
Each of the shoppers goes its own way in local matters; and actually, since there is no interlocking ownership of the papers, the network is nothing more than an affiliation for selling national space in a block.

Space is sold in the shopper network a little differently from the way time is sold on a radio network. The radio advertiser must buy time on a minimum number of basic stations, whereas the shopper advertiser can take space in as few papers as he pleases.

• Group Discounts Offered—To entice widespread use of the medium, Shopping Newspapers offer group discounts to national advertisers—5% off for use of any 10 papers aggregating 1,000,000 circulation; 10% off for use of any 20 papers aggregating 2,000,000 circulation; and 15% off for use of 30 or more papers aggregating over 3,000,000 circulation. Total distribution of the whole group is now close to 7,000,000. In addition to the group discounts, advertisers can earn frequency discounts by 13 or more weeks of consecutive use.

The shoppers break down by content into three classes: a few are 100% advertising; some carry service features, such as menu hints and beauty helps, to pad out the advertising; and some also carry local news, mostly society notes.

• All but Seven Are Weekly—Most of the shoppers in the network are full eight-column newspaper size. Seven come out twice a week, the rest weekly. Most popular publishing day is Thursday. Biggest circulation in the group is that of the Chicago Downtown Shopping News, 750,000; thirteen others have more than 100,000; smallest is the



LIVESTOCK SPECIAL

Agriculturists estimate that the State of Florida still has nearly 25,000,000 acres of timber land and potential grazing land. To stimulate the interest of farmers in expanding their activities, the Atlantic Coast Line—following the lead of the Illinois Central—last week began running a Livestock Development Train throughout the state, with state and University of Florida agriculturists on hand to lecture on modern cattle-raising methods.

Bismarck, N. D., Capital Shopper, 6,050.

All of the shopping papers in the network are home delivered—mostly rubber-banded to doorknobs—by carrier boys. Most of the papers have their own carrier systems, but a few rely on outside delivery services.

• Space Sells for Less—The big advantage of shopping papers is, of course, price. An advertiser can buy space in the average shopper for about 60% of what he would pay for the same circulation in regular newspapers. Mr. Coveney also argues that the big worry of newspaper space buyers today is the necessity of buying a number of partly-duplicating newspapers to cover a single metropolitan market, and that the shopping paper solves that problem with its complete, controlled circulation. The argument, of course, does not apply to towns having a single newspaper.

That shoppers have cut deeply into the retail linage of newspapers in many cities is beyond doubting. In a number of places—Oklahoma City, for one—the weekly shopper carries more grocery advertising than the morning and evening papers combined.

• Owned by Big Stores—In Chicago, Marshall Field & Company is using about a million and a quarter lines in the Downtown Shopping News this year, more than in any other paper. Field's is an owner of the shopper, along with The Fair, Carson Pirie Scott, and the Boston Store. Until recently, the Downtown Shopping News accepted advertising only from merchants doing business in the loop, but recently chain grocers were permitted to come in.

Whether shoppers will be able to take similar bites in national advertising remains to be seen. Sponsors of the Shopping Newspaper network say that its progress has been faster than was originally scheduled, and that they no longer have doubts about the idea. But the volume as yet is picayune; probably the total revenue of all shoppers from national advertising will not exceed—this is a guess—$200,000 this year. It seems doubtful the network is yet making selling expenses, but that means little, for 18 months is a short time to figure for such a proposition to turn the corner.

• Testing by Manufacturers—Since Shopping Newspapers were put together, around 250 manufacturers have given the network a dabble. These have included many of the big food, soap, and household product manufacturers. Whether their tests will lead to expanded campaigns is the important thing. The most papers yet used by any one advertiser is 80, taken by Bell-Ans; Lydia Pinkham has used 40; Babbo, 30; Lever Bros., 23; and Chase & Sanborn and Sweetheart Soap, 20.

A few years back, newspaper owners seemed determined to fight shoppers with legislation. In many towns and cities anti-littering ordinances—forbidding distribution of free "literature"—

were pushed through to cramp the style of shoppers. But these haven't worked too well; some were frowned on by the courts, others were rather easily sidestepped, for no law can be framed constitutionally to stop deliveries when made by request.

• **Housewives Order It**—When Hinsdale, Ill., a suburb of Chicago, passed an unfavorable ordinance, the Chicago Downtown Shopping News simply got housewives to order the paper, and was able to continue deliveries to more than 90% of the families in the suburb.

Additionally, more and more newspaper owners are coming to feel that fighting shoppers with legislation is no way to build prestige and good will—or preserve the freedom of the press.

Instead, newspaper owners are now relying on their two basic competitive arguments: that their paid-for papers are assured of readership whereas free circulation has a dubious welcome; and that news and other editorial matter are necessary to get the readership for a paper that will make advertising effective.

Chains Use Grades

Join consumer council in experiment with use of A-B-C labels on canned foods. Study to be made by government.

Long the baby of consumer organizations and the nightmare of most canners, A-B-C grade labeling of canned fruits and vegetables seems about ready to shed its swaddling clothes and, with the helping hands of consumer groups, chain stores, and government sympathizers, take some real steps.

Food chain stores are taking hold in a 1-year experimental program worked out in cooperation with the National Consumer-Retailer Council, which has set up a label advisory service. Already Kroger Grocery & Baking Co., Grand Union Tea Co., and D. Pender Grocery Co., have had their grade-revealing labels approved by N.C.R.C. Others are about to fall in line, and Great Atlantic & Pacific Tea Co., which long has grade-labeled some of its vegetables, has now decided to include fruits and California spinach and asparagus.

• **What Labels Will Show**—The cooperative program was worked out by N.C.R.C. and the National Association of Food Chains, of which A. & P. is not a member. Labels will bear grade designation, a brief description of the A-B-C scoring method, a description of the contents of each product, plus information required by the Food, Drug and Cosmetic Act. At the option of distributors a line may be added saying the label has been approved by N.C. R.C. Standards will be those developed

by the Agricultural Marketing Service, U. S. Department of Agriculture. Peas, tomatoes, corn and peaches will be used in the 1-year experiment, but chains may add other products if they want to.

For its part, N.C.R.C., in addition to reviewing labels, will have its members (American Home Economics Association, American Association of University Women, General Federation of Women's Clubs) explain through local units the nature, procedure, and objective of the test. Local members will be told what stores are cooperating and will assist in getting consumer reaction.

• Government Survey Starts—Agricultural Marketing Service, meanwhile, has started its own survey to determine consumer reaction to fruits and vegetables packed under its continuous inspection service. These products not only are grade labeled, but bear statements that they have been produced under A.M.S. supervision. Alice Edwards, former executive secretary, American Home Economics Association, has been retained to conduct this survey through home economics departments of various universities. The first survey is now under way at Macy's, New York, which is selling A.M.S.-inspected canned goods under its own labels.

FREE SHOW RESTRAINED

A new supermarket in Lynwood, Calif. (Von's Grocery Company), hired a small circus as an opening attraction. Customers were given tickets with purchases, and children got free rides on the merry-go-rounds. The show pitched on a vacant lot next to the store. Such promotion is considered a violation of the tight California unfair practices act by the Food and Grocery Bureau of Southern California, policing agency for organized retail grocers, whose counsel holds that the free shows constitute unfair competition. A temporary restraining order has been secured, and the defendant must show cause why an injunction should not follow.

HOLIDAY SEASON

While 16 states were celebrating Thanksgiving on Nov. 28 this week, the 32 states which took advantage of the early Thanksgiving on Nov. 21, were already launching the Christmas season. In Hollywood, Calif., this week, the season was ushered in with the annual parade which turns Hollywood Boulevard into Santa Claus Lane. In New York City Mayor Fiorello LaGuardia asked George Sloan, Commissioner of the Department of Commerce, to find out whether the advance in Thanksgiving Day this year had resulted in any increase in department store sales.

Stoker Bottleneck

It's not in manufacture, but in potential market, and makers —worried in spite of sales rise—plan campaign.

Makers of domestic stokers have sold more and more units every year but one since 1932. In the first nine months of 1940 their sales were up 50% over the same period in 1939, itself a good year. They consistently make good profits. Yet they are worried sick.

Conversion units—sold to install in existing hand-fired furnaces—supply the industry's principal volume. The ideal prospect for a domestic stoker is the family with an income that is large enough to permit laying out a couple of hundred dollars for the equipment, yet small enough to make really important the money that can unquestionably be saved in most sections of the U. S. by burning coal instead of liquid or gas fuel.

• Cool, Dry Clinker—Excepting the stoker especially developed by Pocahontas Coal Co. of Cleveland for burning its particular type of coal and removing the ash automatically, all domestic stokers require the householder to remove the waste product from the furnace—usually as a cool, dry clinker—and carry it out of the house.

Stoker makers already have units which include furnaces specially designed to fit the stoker. They consider the one-package unit the coming trend of their industry. But these units are still pretty much marking time because, actually, sales of stokers as original equipment for new homes have never got to first base. Somehow or other the manufacturers have not yet learned how to connect with the big-league pitching of their oil-burner and gas-burner competition.

• 77% Take Piped Fuel—Because prospective home owners stubbornly continue to suspect that any kind of coal-burner will make dirty work in the cellar, around 77% of all new homes have oil or gas heat. This means that piped fuel goes into almost all new homes above the minimum-housing class, whether owner-built or speculatively built. Altogether too many of these to suit the stoker boys have special-purpose furnaces that cannot burn coal, and consequently cannot ever yield stoker sales.

In brief, stokers are selling to a market that is steadily decreasing in number of prospects. Nobody knows just when this will be reflected in falling sales volume.

• Drive for Popularity—Meeting the other day in Chicago, the Stoker Manufacturers' Association decided to get

A modern distribution base in Illinois

A new Illinois manufacturing plant

A recently built Illinois branch factory

Sound Industrial Growth

The sound growth of manufacturing in Illinois is the result of the combination of advantages to industry which Illinois offers. Illinois produces, or is close to, the vital raw materials used in most industries. It is in the heart of Agricultural America and ranks third in value of farm products. Rich mineral deposits are found throughout the State. Illinois is third in bituminous coal production, and is one of the leading oil producing states.

The central location of Illinois makes this State the logical location for a main plant, branch plant or distribution base. Illinois is the railroad center of the United States, with direct rail shipping facilities to all markets of the Nation. The huge Middle West Market is within overnight shipping radius. Air and highway transportation facilities are unexcelled, and many industrial communities are served by both the Lakes-to-the-Gulf and Great Lakes St. Lawrence Waterways. In little more than a century, Illinois has changed from a purely agricultural State, with less than one percent of its population engaged in manufacturing, to the THIRD State in the Nation in value of manufactured products. Today, Illinois manufacturers produce more than Five Billion Dollars worth of finished products annually. Three Billion Dollars worth of raw materials, fuel, electric energy and contract work are utilized each year. More than seven hundred thousand persons are gainfully employed in manufacturing in Illinois, with a total annual payroll approaching a billion dollars.

SPECIAL CONFIDENTIAL REPORT
TO EXECUTIVES

Write the Illinois Development Council, at Springfield, today for special report on the advantages Illinois offers industry, and how these advantages apply to your business. The report will contain data on raw materials, labor, markets, transportation, fuel, power, taxes, available plant sites, and other facts important in the consideration of a location for a new plant or a branch plant.

Please list any special or unusual production or distribution requirements, in order that a truly practical and informative report may be submitted for your consideration. Your inquiry will, of course, be kept strictly confidential. Write—

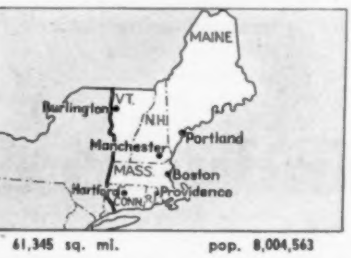
ILLINOIS DEVELOPMENT COUNCIL
STATE HOUSE • SPRINGFIELD, ILLINOIS

ILLINOIS

THE STATE OF BALANCED ADVANTAGES

The Regional Market Outlook

BOSTON—New England's industrial production continues to forge ahead. But unlike the early part of 1940, consumer goods industries are showing gains over a year ago, instead of losses. Woolen and worsted mills are at near-capacity levels, busy on government orders for uniforms, blankets, etc., and demand for civilian spring clothes promises to sustain schedules. Cotton mills are booked to the year-end and shoe retailers' inventories-to-sales ratios augur well for the industry's spring run. The implication—for marketing over the next several months—is that shoe, woolen, and cotton towns in Rhode Island and Massachusetts will outstep heavy-goods and metal-trades centers where plants are operating at close to capacity. Sharpest trade expansion is likely where new defense plants are building—in Quincy, Mass., and Bath, Me., because of shipbuilding, in Hartford, Conn., because of aircraft, in southwest Connecticut, because of engine, ordnance, and other defense orders.



61,345 sq. mi. pop. 8,004,563

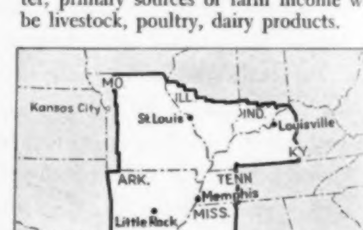
Up around Bangor, Me., the lumber and paper industries are expanding. Scandinavian pulp supplies are still cut off, and construction is boosting the demand for lumber. Around Aroostook, however, potatoes are over-plentiful, and marketing receipts have suffered. Vermont has been lifted to top rural rank in this industrialized reserve district by the rise in prices of dairy products.

ST. LOUIS—Defense industrialization has begun to take hold in this area. Du Pont's Millington, Tenn., powder plant is ready to start operations now, and American Car & Foundry has announced that around Jan. 1 it will assemble the first of 1,000 light tanks at St. Charles, Mo. Last week Curtiss-Wright broke ground for its new St. Louis factory, which will employ 10,000 persons when completed, and construction will soon be under way on the big Weldon Spring, Mo., TNT plant. It has been rumored a naval ordnance plant will be located at Louisville.

Other defense developments include the building of an $8,400,000 army encampment near Rolla, Mo., in the heart of the Ozarks. Also, the Second Army Headquarters has been moved to Memphis, thus increasing local buying power; the city is enlarging its airports.

With steel and metal-working plants busy, coal mines active, and manufacturing generally expanding, the only sour note in the northern sections of this district is the current decline in southern Illinois oil output. With cold weather slowing drilling operations, a further drop is expected, but the impact on payrolls will be slight.

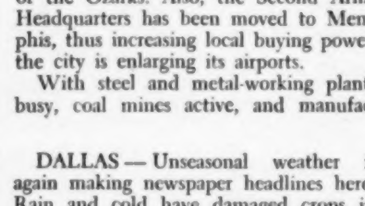
Cotton has been harvested in the southern areas, and the Kentucky tobacco auctions are opening. Through the winter, primary sources of farm income will be livestock, poultry, dairy products.



194,810 sq. mi. pop. 10,169,418

DALLAS — Unseasonal weather is again making newspaper headlines here. Rain and cold have damaged crops in east Texas and truck gardens in southwest Texas. The city of Amarillo, hit by a sleet storm, has been ice-bound. And the rampaging Sabine, Trinity, Brazos, Colorado, and Guadalupe rivers have caused widespread "flash floods."

But this is no disaster of major proportions, and beneath the surface, income prospects still hold promise of good retail sales. In fact, the rain served to improve range condition, and to increase subsoil moisture in many places where fears of drought were growing (BW—Nov.2'40,p36).



386,116 sq. mi. pop. 7,734,649

As the military training program gets under way, Brownwood, El Paso, Mineral Wells, Corpus Christi, Freeport, Beaumont, and Orange are reaping the business that customarily flows into towns adjacent to military camps.

Of the larger metropolitan areas, San Antonio (with Fort Sam Houston and Randolph Field) will benefit most from direct military expenditures. Agricultural receipts in surrounding sections are up, too. Houston, on the other hand, is getting the lion's share of district defense contracts for metals and chemicals, and these will more than offset the decline in cotton exports. Dallas and Ft. Worth will have new defense industries, and farm income in this area is well above the 1939 level.

really busy with money to boost the popularity of coal heat for new homes. A special meeting is called for mid-January to receive the report of a committee that meanwhile will prepare an advertising program. Present intention is to develop ways to join forces with the National Coal Association in its projected national advertising plan for the coming year, and to pitch in sufficient cash to help make the advertising more effective.

Symptom of the same zeal: Midwest Stoker Association (sales agencies of eight major makers) next week will open an Automatic Coal Heat Room in the Home Building exhibit of Chicago's Merchandise Mart, with the cooperation of other potent building trade names including Armstrong Cork, Johns-Manville, Minneapolis-Honeywell, and United States Gypsum.

Gift-Box Trouble

Retailers will offer the usual crop of combination sets at Christmas, but are worried about violating fair trade.

With Thanksgiving out of the way, drug and department stores will overflow with Christmas gift sets of sundry cosmetic and toilet goods. The makeup and pricing of the gift sets will carry particular interest for the trade this year.

Reason for the interest goes back to a fair-trade decision handed down in the Chancery Court of New Jersey on Sept. 30. In a case involving the Bathasweet Corp. and a retailer, Weissbard Brothers, the court set up this principle: "When a producer operating under the fair trade act combines two trademarked articles into a combination package for resale at a price less than the aggregate price of the articles if sold separately and independent of the combination, he has abandoned his price structure under the statute as to those items which have been combined."

• **New Fair-Trade Principle?**—That the principle will stand up under appeal, and will be adopted in other states where fair trade laws exist, seems probable to many merchandisers, both friends and foes of fair trade. They point out that courts generally have held that retailers violated fair trade whenever they gave anything free of charge, such as trading stamps, with a price-protected article. Logically, an offer of a combination at a lower price, even if made by the manufacturer, would constitute a similar violation of fair trade.

Combinations are familiar in the drug and toilet trade at all times, but, be-

cause they flourish particularly in the holiday season, merchandisers feel that the coming weeks are critical. They know that price cutters will be watching gift sets for chances to void established minimum price schedules.

Manufacturers aren't doing much talking on the subject, but several who feel they're vulnerable are known to be quietly adjusting prices on combination offers. Because gift boxes are planned long in advance, that's as much as can be done in some cases immediately. Eventually, however, manufacturers will try to work out price-appeal combinations that won't upset their fair trade prices on single items.

• **A Change in Emphasis**—One method may be to put additional emphasis on combination packages. Instead of cutting prices on gift sets, manufacturers may attempt to pack more value into the combinations by putting them into fancier boxes. There is, however, a limit to this. If a box were made too fancy, a court might adjudge it to have a separate value—other than as a container for the merchandise—and as such to be a premium voiding the minimum resale price.

Also likely is the further development of special sizes for use only in combinations. It would be particularly hard to prove price reductions on special sizes sold in combination with items not marketed separately by the manufacturer.

McCall Plan Hit

American Home Economics Association deals body blow to Institute of Standards by refusing to participate.

The embryonic Institute of Standards —sponsored by McCall's Magazine "to bring order and direction to the consumer movement"—was dealt a body blow last week when the American Home Economics Association got out a press release announcing that it had decided not to participate.

Eventual success of the Institute has from the beginning been predicated upon the support and confidence of both business and consumers. In a comment this week on the A.H.E.A. action, the Institute makes clear that it will continue its organizational plans, but says that "a variety of deep-seated misunderstandings between business and the consumer movement still need to be cleared away."

• **Product Checks**—The Institute was first announced four months ago (BW–Jul.27'40,p30), when Otis Wiese, editor of McCall's wrote a letter to several hundred leading manufacturers inviting them to become members along with three other groups—consumer organizations, publishers, and testing laboratories.

The purpose of the new organization would be to promulgate consumer-accepted standards for various kinds of goods and to provide an opportunity for manufacturer-members to have their products checked against those standards by laboratory-members.

The Institute was born only after long consultation with representatives of the three biggest groups of women consumers—the American Home Economics Association, the American Association of University Women, and the General Federation of Women's Clubs. In the first announcement it was said that "their representatives unanimously recommend support of the program."

• **Uncommitted**—The three organizations quickly made clear, however, that they were not committed by their representatives to membership in the Institute. And in the ensuing four months it has been increasingly evident that there is a division of opinion among the consumer leaders about the Institute—just as, for that matter, there has been a split of business opinion (BW–Sep.7'40,p40).

• **Original Set-Up**—The plan first called for a consumer board of review to be appointed by the three women's groups, which would have power to accept or reject any given set of standards. Manufacturers, if they wished—there was no

compulsion—could have their products tested against any approved standard. And for products meeting the standard, an Institute verification symbol would be granted.

Seemingly, this arrangement was not wholly satisfactory to anyone. Some of the consumer leaders, as well as some business men, had doubts about putting acceptance or rejection of standards entirely into the hands of a consumer board of review.

• **Plan Modified**—Accordingly, at a meeting last month in Washington with the three women's groups, Institute officials proposed that, until experience might dictate some other course, it would cooperate with consumer organizations only through existing agencies such as the American Standards Association and the National Consumer Retailer Council. The three women's groups would not now be asked to join the Institute, although individual leaders would be asked to help work out methods which would lead toward development of standards and labels.

• **Surprise**—In view of this understanding, last week's announcement of the A.H.E.A. came as a surprise not only to McCall's but also to the other two women's groups. The latter have since done no official talking, and don't seem to feel that any is called for. Basically, however, the position of all three groups seems to be the same: As consumer organizations they are leery of "proprietary interests" in any undertaking for consumer welfare and officially they will keep hands off the Institute of Standards. However, individual members of the various groups have since indicated their willingness to continue cooperation with the Institute.

PERSONAL TOUCH

Passengers boarding planes of the Chicago and Southern Air Lines (Chicago to New Orleans) receive a pleasant boost to their egotism by being handed the company's newspaper with their name printed on the front page. The paper is something new. It is a 12-page, miniature monthly which carries facts about the line, pictures, aviation items, advertising, and publicity for cities on the route. In addition to the passenger's name, the imprint on the paper gives his destination and his business. It is applied by a special, patented process.

TYPOGRAPHICAL ERROR

Last week, total sales of automobile tires as of Oct. 1 were reported as being 20% ahead of the nine months' period last year, thanks to the 30% gain in sales of original equipment tires which offset the lag in replacements (BW—Nov.23'40,p22). The total sales gain should have been reported as only 2%, not 20%.

Cab to Caboose

Railroads find that circuit for conductor and engineer is practical, but fear heavy cost of installing equipment.

Voice communication between the front and rear of a moving train, between two or more trains, and between trains and wayside stations, has passed beyond the experimental stage. For some months, the Bessemer & Lake Erie has been using two-way communication developed experimentally by Union Switch & Signal Co. on two of its mile-long coal-and-ore trains. Method used is induction telephony, which utilizes rails and existing roadside wires to carry the impulses.

But it is in classification yards—hump yards—that the method has gained its greatest acceptance. Last month, Union Switch installed, and the Big Four accepted, a system for letting the Sharonville, Ohio, hump yard boss give his engineers vocal instructions which the engineers acknowledge by signal. Last month, also, a similar installation went into permanent service in the Decoursey, Ky., hump yard of the Louisville & Nashville. This month the Pennsylvania equipped its Columbus, Ohio, B yard.

• **Induction Telephony**—General Electric Co. also has an induction telephony system much like Union's. This was tried out successfully on a Canadian road a few years back.

General Railway Signal Co. has an experimental installation of radio telephony at the Chicago & North Western's huge hump yard at Proviso, Ill. G.R.S. is not talking about this yet, but railroad signal engineers keep hearing rumors that the Proviso set-up is doing much better than even its developers had hoped. Westinghouse Electric & Mfg. Co. had a trial radio installation on the New Haven some years back, which was generally considered successful.

Usefulness of these new methods of train communication is recognized pretty generally by signal experts. What they balk at primarily is the cost, and secondarily the possibility of being forced to make ruinously heavy investments. Their fear is based on the precedent of the 1920's when the Interstate Commerce Commission hearkened to unions' pleas, and rammed automatic train control down the roads' throats.

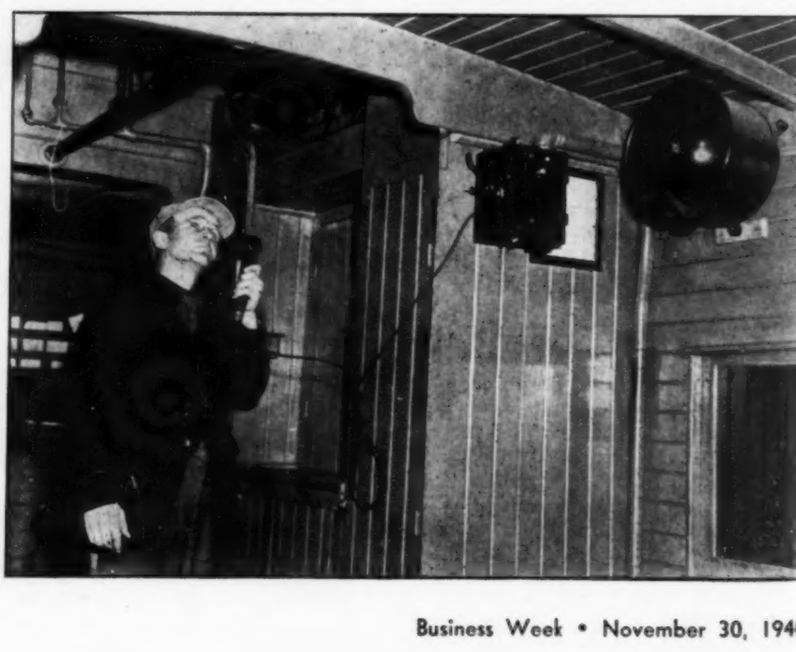
• **Mathematics of the Case**—Cost of equipping a locomotive and caboose for two-way communication by the Union Switch induction telephony method is close to $6,000, which figures out to a lot of money when applied to all freight engines and cabooses in service. Not so bad is the $2,000 cost of equipping a hump-yard office and two switchers. No line equipment is necessary, except for stringing a wire on sections of the railroad where no wires parallel the tracks and where communication over five miles is desired.

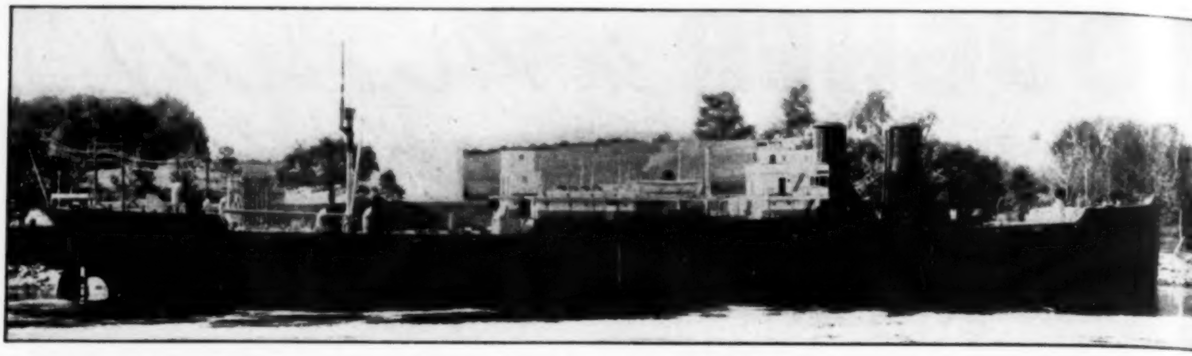
Cost of radio equipment for the other methods is not yet public property, but a fair guess is that it should be somewhat less than for induction telephony. Major obstacle to railroad radio is that Federal Communications Commission licenses would be necessary both for the installation and for the men operating the sets, and available wave bands are scarce as hen's teeth.

Secondary obstacle is lack of privacy: delicately nurtured radio listeners-in might hear expressions that FCC does not encourage on the air—nobody has yet discovered a way to make a hopping-mad conductor talk sweetly to the engineer who is the object of his wrath.

• **The Advantages**—All manner of advantages are available on a road that has two-way voice communication. The B. & L.E. reports that trains pull out of terminals sooner and faster, because

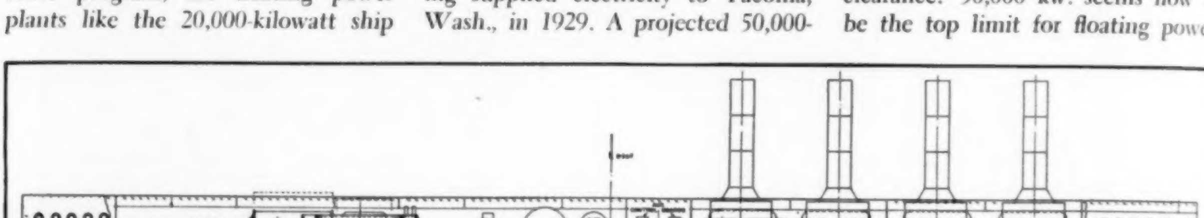
The engineer and the conductor find that a two-way communication system comes in pretty handy on a Bessemer & Lake Erie coal-and-ore train, where it's often a mile or more from the engine to the caboose.





FLOATING POWER

Unknown to the general public, but no less ready to take care of power emergencies and shortages of the defense program, are floating power plants like the 20,000-kilowatt ship Jacona (above) of the Public Service Co. of New Hampshire, now in service on the Piscataqua River near Portsmouth. The idea of such power ships is not new, the U.S.S. Lexington having supplied electricity to Tacoma, Wash., in 1929. A projected 50,000-kw. floating power plant (below) is being studied by General Electric. It would be housed in a hull like a lake freighter with a 290-ft. length, 43-ft. beam, 10-ft. draft, 15-ft. low-bridge clearance. 50,000 kw. seems now to be the top limit for floating power.



the engineer and the hind end swap precise information instantaneously.

The method has been used to report hot boxes, to stop the train because of a hot bearing on a pusher engine, to coordinate movements of pusher and head engines, to notify the conductor of reasons for train stops and thus save him walking the length of the train.

Test-Tube Cows

National Dairy study reveals rapid growth of artificial insemination by which one bull can serve 1,200 cows.

In April, 1938, a "test-tube calf" was born in the University of Missouri's dairy herd. In May of the same year, the first large-scale artificial breeding cooperative was established in Hunterdon County, N. J., under the guidance of the New Jersey State College of Agriculture, Rutgers University. This week, a survey conducted by National Dairy Products Corp. reveals that "around 5,000 dairy farmers have had about 50,000 cows sired through test tubes by veterinarians who manage over 50 artificial breeding associations located in 22 states."

• **Cost Reducer**—Contrary to the usual opinion of city-dwellers, the purpose of artificial breeding is not to secure more calves more quickly—in the sense that incubators revolutionized chicken-raising by substituting mass production methods for the setting hen—but rather to increase the number of offspring that an outstanding, proven bull can sire and thus to reduce the cost of his maintenance and service in the economy of farm milk production. By processes of division and dilution as many as 8 to 20 cows, instead of just one, can be serviced in a single operation.

Rate of conception through use of the comparatively simple technique of artificial insemination ranges from 1.6 to 1.9 inseminations per pregnancy, a little better than the rate of natural breeding. Ultimately it may be possible for one bull to take care of 1,200 cows, but experience seems to indicate the desirability of two or three bulls for that number. Assurance of 1,200 cows of a single breed within a 20-mile radius is now generally recommended to any group of farmers considering the founding of an artificial breeding association. Under such circumstances test-tube mating may bring service fees below $5.

• **Research Promotion**—The big milk-processing and distributing organizations are establishing test-tube fellowships in many of the agricultural colleges. This week Thomas H. McInnerney, president of National Dairy, is mailing a new booklet, "Artificial Insemination of Dairy Cows," to some 40,000 dairy farmers, giving, probably for the first time, the ins and outs of the organization and management of artificial breeding associations.

Self-Sealing Tanks

New safeguard for fuel of fighting planes means work for the rubber companies, and big orders are being placed.

The amazing versatility of rubber is nowhere better demonstrated than in the current defense program, where new uses are being uncovered daily.

Mechanized armies roll on rubber tires, or on high-speed track-laying vehicles equipped with rubber tracks, while shock-eliminating, sound-deadening and vibration-dampening qualities are imparted by numerous other rubber parts.

• **In the Air Arm, Too**—And even the air arm knows the indispensability of rubber and rubber-like materials, whether in the form of tires, de-icers, oil- and grease-resisting hose and tubing or other accessory items.

Newest utilization is the "self-seal-

ing" fuel tank for fighting planes, a development that seals up holes in the wake of highpowered and heavy caliber machine gun bullets, stops leakage of fuel even though the tank's metal covering may be badly riddled.

• Millions in Orders—Both the B. F. Goodrich Co. and Firestone Tire and Rubber Co. are producing the new gas tanks. Orders already placed for them by builders of American aircraft aggregate many millions of dollars. Goodrich alone in the past 60 days has received orders totaling more than $2,-000,000.

While details of the construction of the tanks are secret because of military restrictions placed on the producing firms, it is believed that the "self-sealing" feature is imparted by a protective rubber, or rubber and synthetic, lining within the tank.

• Not the Mareng Cell—The new development is not to be confused with the so-called Mareng cell, or figurative inner tube for fuel tanks (developed by Glenn L. Martin Co.), that prevents leakage of gasoline even though the metal plates of the tank may have been loosened by vibration. Those cells (BW—Jan.7'39, p29) are resilient units made of thin fabric impregnated with synthetic rubber.

Research on the self-sealing tanks has been under way for some time. Goodrich reports that its development is more than two years old. Other rubber companies, notably U. S. Rubber and Goodyear, are also deep in similar developments, it is believed. Firestone manufactures the fuel tank itself as well as the lining.

• How It Works—While precise details of the action of the lining are not obtainable, it is known that when the lining is pierced by a bullet gases within the tank expand, causing other reactions that result in the rapid closing of the bullet hole. In addition to minimizing fuel leaks, the linings act as safeguard against fire.

BIG POWER SHOW

Power equipment for the production of defense materials will get the emphasis at the 14th National Exposition of Power and Mechanical Engineering, to be held at the Grand Central Palace, New York, Dec. 2–7. Of the list of 1,200 products in the power field which will be exhibited at the Power Show, a large proportion is going to be new —such things as electronic devices for smoke control, an automatic forge heater which controls the temperature of processed parts by their color, a super-blow-torch, welding devices, an electric furnace for casting a layer of stainless steel in an ingot of base alloy.

Exhibitors will total close to 300, with records of the International Exposition Co. showing that this will be the largest Power Show in a decade.

NEW PRODUCTS

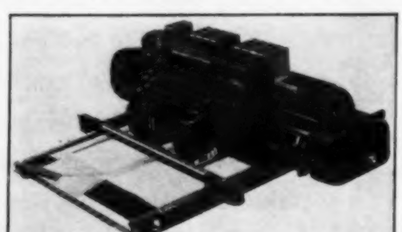
Repeating Projector

When the Repeater Kodascope finishes showing any 16-mm. film, it turns out the projection light automatically, rewinds the film, turns on the light again, and repeats the showing as many times as desired. The maker, Eastman

Kodak Co., Rochester, N. Y., points out that the rewind period allows one group of observers to disperse, and the next group to form. Shown also in the picture are Moviette Reels, made by Moviette, Inc., 320 W. 42nd St., New York, to increase the capacity of almost any movie projector to 750 ft. of 16-mm. film.

Electrified Bookkeeper

Continuing the "flat-writing principle" of former models, Underwood Elliott Fisher Co., 1 Park Ave., New York, is bringing out a whole new series of Elliott Fisher Accounting Machines with electric keyboard to speed opera-



tions. They come in three widths, 11, 16, and 24 in., in several models to meet the individual requirements of different accounting problems.

Thermalamp

Experience reveals three principal enemies of heat-processing with infrared rays (BW–Aug.10'40,p36): (1) dirty and discolored reflectors, (2) spotty heating, (3) incorrectly focused lamps. To overcome them C. M. Hall Lamp Co., 1035 E. Hancock Ave., Detroit, designed its new Thermalamp as a quickly replaceable, easily cleanable unit having an exact pre-focus, an inbuilt lens with a hexagonal pattern for thorough heat distribution, and an inbuilt gold-plated reflector not exposed to dust and fumes. When they are correctly arranged in gangs or clusters, as in the Hall Master Oven, the lamps produce a uniform heat of 350 deg. F. in one minute.

Bench Miller

Starting out with drill and arbor presses, Atlas Press Co., Kalamazoo, amplified its line three years ago with bench lathes and shapers. Its newest product is the general purpose, precision Atlas Bench Miller, which is compact enough to become a valuable item

of army field repair equipment, and versatile enough to train student mechanics for work on full-size machines. Here, the tool is being used to mill splines.

Direction Finder

Even the smallest boat can find its way out of a fog with the new Ansley Radio Direction Finder, a self-contained, battery-powered unit weighing only 17 lb., built by Ansley Radio Corp., 4377 Bronx Blvd., New York. Its loop antenna will tell the direction of radio signals at distances ranging up to 200 miles.

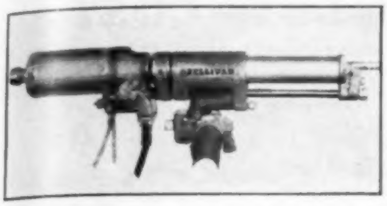
Smell Neutralizer

When a car comes back from a repaint job, and sometimes when brand new, the combined odors of various finishing materials can be hard to take. To neutralize them and to add an agreeable piney aroma to the car, Expello Corp., Dover, N. H., has brought

out the Odo-Car, an inconspicuous little vial of volatile liquid which attaches with a fountain pen clip.

Electric Rock Drill

It looks like a machine gun, but it's the new high-speed Sullivan Torpedo



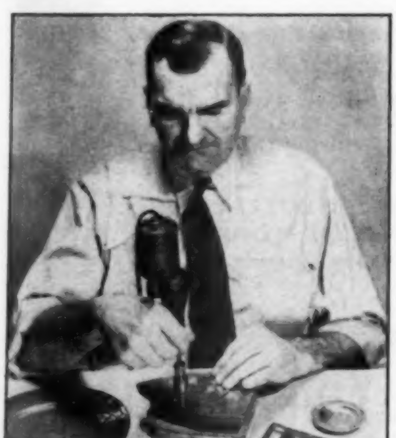
Drill which operates by electricity instead of compressed air. As developed by Sullivan Machinery Co., Michigan City, Ind., it uses a new self-sharpening, diamond-impregnated rotary bit and has already demonstrated economies in both prospect holes and blast holes, above and below ground.

Pyroflex

Back in 1911, Porcelain Enamel & Mfg. Co., Baltimore, brought out porcelain enamel frits which fired at 1,600 deg. F, or 200 deg. less than usual at that time. Now it is ready with Pyroflex, a sturdy inorganic finish which fires at 1,400 deg., and permits the use of lighter gage metal for backing.

Power-Hand Tool

There's still time before Christmas to hammer out copper ashtrays and other soft metal presents with the new Handee Artizan, a 1¼-lb. motor-driven, reciprocating-plunger tool de-



livering 800 regulated blows per minute. Chicago Wheel & Mfg. Co., 1101 W. Monroe St., Chicago, makes it with accessories including cross-peening head, engraving tool tip, leathercraft attachments, filing chuck, and files for both industrial and hobby work.

MILL FABRICATED *TIMBER MEMBERS* ARE AN ANSWER TO QUICK LOW-COST *Defense Construction!*

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TIMBER ENGINEERING CO., INC.

WASHINGTON, D. C.

BUSINESS WEEK REPORTS
TO EXECUTIVES ON

NEW MONEY FOR INDUSTRY

THE INVESTMENT BANKER'S JOB FOR MANAGEMENT

The Securities Act of 1933, the Securities Exchange Act of 1934, and the Public Utility Act of 1935 opened new vistas for federal regulation of the nation's financial life. This group of laws was designed to prevent recurrence of the speculative excesses that culminated in 1929. In most respects, the financial community has found that it can live with the "truth in securities" legislation. However, a few major difficulties have developed. For example, a bitter argument stems from the philosophy which gave rise to Rule U-12F-2 requiring registered utility companies to deal at arm's length with their investment bankers. "Arm's-length bargaining" has been a pet idea of the Securities and Exchange Commission ever since Commissioner (now Supreme Court Justice) William O. Douglas made a speech, shortly after his appointment to SEC, urging competitive bidding for new issues. Wall Street and Washington have aired their views about competitive bidding but industry, the party most concerned, has had little voice in this argument—as in several others. In this report, the Editors of Business Week undertake to cast more light on industry's points of view on such important questions by examining the practical relations of representative corporations with their investment banking advisers. The defense program's impetus to corporate expansion adds timeliness to this study.

THIS IS ONE OF A SERIES OF SPECIAL REPORTS TO EXECUTIVES ON CURRENT OPPORTUNITIES, PROBLEMS, AND TRENDS OF MAJOR SIGNIFICANCE TO BUSINESS

NEW MONEY FOR INDUSTRY

THE INVESTMENT BANKER'S JOB FOR MANAGEMENT

In the early summer of 1929, Myron C. Taylor gave some advice which proved about as sound as any that an American corporation has ever received. As chairman of United States Steel's finance committee, he stood before the directors of the corporation and urged them to reduce the funded debt drastically.

In those days of booming prices it was, of course, the simplest thing in the world to sell common stocks. He argued that it would be not only good judgment but a profitable proposition to sell shares and apply the proceeds to bond redemption.

New Shares Sold

It is a matter of history that, in the months that followed, the Steel Corporation under Mr. Taylor's guidance reduced the debt of the parent company and its subsidiaries from $456,126,900 to $111,809,900. A very large part of the money for this striking readjustment of the capital structure came from the company's stockholders. With the price of the common shares hovering around $175 in May, 1929, they were offered the right to buy one new share at $140 for each seven shares they owned.

Over the years, the wisdom of this debt retirement operation became more and more obvious. The annual interest charge which had been $25,740,000 in 1928 was only $5,640,000 in 1930. It became progressively smaller from then until 1938 as sinking funds cut still further the amount of bonds which subsidiary companies had outstanding in the hands of the public.

Back Dividends Pile Up

Early in the depression Big Steel found itself obliged to discontinue dividend payments on its common stock. By 1933 the directors decided it was their duty to cut the preferred dividend from the stipulated $7 a year to $2, and arrearages on this cumulative stock began to pile up. These accumulations on the preferred mounted to $18.25 a share—a total of $66,700,000—before economic conditions improved to a point where back dividends could be cleaned up.

Yet at no time during the depression was there any serious doubt about the ability of Big Steel to meet its interest requirements, because most of the debt had been converted into common stock. Had interest been $25,000,000 instead of $5,000,000 a year, however, it might have been a different story because there were deficits before payment of interest of $65,862,244 in 1932, $31,336,671 in 1933, and $16,616,728 in 1934.

Now just take a look at U. S. Steel's financial statements for the last few years. Net working capital which in 1929 had been $440,874,465, including $195,000,000 of cash items, had dwindled to $378,551,536 of which $136,000,000 was cash or its equivalent by the end of 1935. This, despite the fact that dividends on the common stock had been discontinued entirely in 1932 and those on the preferred had been cut from $7 to $2 a share in 1933.

Just suppose that the corporation had been required to pay out $25,000,000 a year in interest instead of $5,000,000 for the years from 1930 to 1935, inclusive. That would have been an additional drain of $120,000,000 on working funds.

The vicissitudes suffered by American industry over the last decade have made United States Steel's 1929 debt retirement program look like a milepost in financial management. And Myron C. Taylor has become the hero of the piece.

That brings us to the main point of this study: What do American corporations gain through the traditional continuing relationship between managements and the bankers?

Although Myron C. Taylor has not for a long time been thought of as a "Morgan man," he most certainly was known as such in 1929. When he joined the Steel Corporation in 1927 it was the general assumption that he was the representative of J. P. Morgan & Co. in the management of a company which Morgan the Elder had organized back in 1901.

Morgan-Stanley Gets Business

Early in 1937, when Big Steel wanted to raise $100,000,000 through sale of 3¼% debentures, it went to Morgan Stanley & Co., investment banking offshoot of the House of Morgan. (The firm of J. P. Morgan & Co. confined itself to commercial banking after the Banking Act of 1935 forced divorcement of commercial and investment banking.) Again, in 1940, when the Steel Corporation decided to pay off a block of the debentures sold in 1937 and to refund the remaining $75,000,000 with serial debentures at a substantially lower net interest cost, it went to Morgan-Stanley.

Here is an example of a continuing relationship with a banker which "sold" the client—one that continued after the investment banking house split off from the original bankers.

From such a long-standing relationship of a banker to a corporation (and from some which antedate even this one by a good many years) arise charges of banker domination. Critics of the system feel that there is either a real or a potential conflict of interest when the investment banker has to decide between the best interest of his client and the commissions which would accrue to his house if he advised flotation of securities. There are those students of the investment business who believe that a corporation should retain outsiders to provide its financial advice and, when issues of securities are to be sold, should call upon investment bankers to submit competitive bids.

Case History of a New Bond Issue

The only way to find out how new securities come into being and are sold to the public is to get down to cases. Although realizing that every piece of financing has its own unusual points, the following constitutes a fairly typical example of an industrial bond issue in a sound company of moderate size.

This company had grown to a prominent place in its industry without any formal public offering of securities. Neither its common nor preferred stocks were listed on any exchange. It was relatively unknown to investors, and it had no investment banking connections.

In the late summer of 1937 the company had just about completed a new plant for which it had borrowed $8,500,000 from the banks to finance its erection. With the plant nearly ready to begin operations it was time to go to the public for long-term money to pay off the bank debt.

The company sought the advice of its commercial bankers on underwriting houses and made its choice from several which were recommended. About the middle of August the first conversations between the investment bankers and the company's officials took place. Two representatives of the underwriting house at once set about a preliminary survey of the company—its history, earning power, and properties.

Bankers Inspect Properties

There were trips to most of the properties, located in eight different states. There were innumerable conferences with officers of the company and their lawyers. Five weeks' work resulted in an "office memo" of 126 pages, dated Sept. 27.

Based on their findings, the bankers suggested a plan for a $10,000,000 bond issue which seemed acceptable to the company. Then came the detailed work. Independent engineers were retained to verify the hundreds of essential facts (their report came to 132 pages plus voluminous appendixes). An expert on this particular industry was called in to render an opinion on all-important reserves of essential raw materials owned by the company.

Then came the preparation of the registration statement for the Securities and Exchange Commission—with the company officials and their lawyers sitting in with the bankers, the bankers' counsel, and the engineers. The company's auditors were put to work preparing detailed financial statements. Simultaneously a trust indenture—setting up a mortgage acceptable to the company and at the same time tailored to investors' tastes—was being drawn. Then everything was ready for the filing of a great sheaf of documents with the SEC on Nov. 17, almost three months to a day after the negotiations had begun.

By this time, six other investment bankers had been taken into the underwriting group, and their representatives now toured the properties to familiarize themselves with the undertaking (and, as is customary in such cases, each house paid the expenses of its own men on this trip). Finally, early in December, the final contract for $10,000,000 of first mortgage 4% bonds was to be signed.

There had been a sharp break in the markets that autumn. Arriving at the final price and the underwriters' commission was no cinch. Finally the bankers bought the bonds at $97 for public offering at $100—a wider than usual "spread" due to the sick condition of the markets.

Dealers Get 1 1-2 Points

Of this 3-point spread, ⅜ of a point went to the original or managing underwriter, 1⅛ to the several underwriters on their commitments, and 1½ to the 223 dealer firms which were taken into the selling group. (The underwriters severally assume all risks with the dealers being paid for selling and not for risk-taking.) Underwriters received the 1½-point selling commission on all the bonds which they actually retailed to the public in addition to their 1⅛ as underwriters.

The offering was made on Dec. 8 with the underwriters selling $3,250,000 directly to insurance companies. Dealers were allotted $3,975,000, and the underwriters retained $3,175,000 which they retailed. This adds up to $10,400,000, so it is obvious that the underwriters went short $400,000 to protect the market. The offering was a complete success, with prices going to a premium at once so that the underwriters paid all the way up to 101⅜ to cover their short position. The selling group was closed out on Dec. 18, and the underwriters got their checks on Dec. 29.

Expenses $121,000

The company received $9,700,000 from the issue. Its direct expenses came to $121,000. This included $18,000 in taxes for recording the mortgage in the dozens of counties in which its properties are located and $14,500 in fees for these recordings; $22,600 for printing costs; $18,500 for legal fees, and smaller amounts for accountants' fees, the company's portion of the engineers' charge, authentication of bonds for the trustee, the SEC filing fee, stamp taxes, etc. The underwriters' expenses were a little more than $32,000.

Incidentally, the company since has been able to refund its 4% bonds with a new issue at 3% interest. The lower coupon reflects, at least in part, the public's greater familiarity with the enterprise. The company's expenses on the second issue were only $79,410 because so much of the work on the earlier flotation did not have to be repeated.

One of the most bitterly controversial topics ever to confront investment banking is this subject of competitive bidding for corporate securities. And it is worth noting, at least as a matter of record, that this idea of inviting bids is by no means a new one. Some 18 years ago the Interstate Commerce Commission held exhaustive hearings with the idea of adopting a rule that railroad securities would have to go on the block. An interesting relic of that investigation is a memorandum submitted by Kuhn, Loeb & Co., long prominent as an underwriter of railroad securities, which is just as pertinent to today's controversy as it was to that in 1922. Incidentally, the ICC dropped the whole discussion except for the fact that it has, since 1926, required bids on equipment trust certificates in most cases.

Bankers Only Beneficiaries?

The current phase of the argument was precipitated by William O. Douglas, who was later to become chairman of the Securities and Exchange Commission and finally a Supreme Court Justice. Early in 1937, shortly after he had been appointed a member of the SEC, he addressed the New York Bond Club. The burden of his speech was that the continuing relationship between banker and client had not been established as valuable "to anyone except the banker," and that it would be well for the banking business to abandon long-standing ties for competitive bidding.

It appears that Commissioner Douglas' meaning was somewhat more restricted than it sounded to his listeners. He intended to create the impression that there should be competition in all cases where even a suspicion of banker domination existed. It later developed, too, that some of his associates in the SEC felt that bids were practicable only in the case of competitive merchandise—securities of very high grade.

Utility Rule Revives Fight

The issue was mulled over and debated academically for a good while. It had almost dropped from sight again when the SEC's public utility division promulgated its now famous "arm's-length bargaining" rule (U-12F-2 in case you don't remember). This, in brief, insists that no banking house may receive a fee for underwriting more than 5% of a utility issue if the firm occupies such a position toward the issuer that the banker might have dictated terms of the financing and choice of underwriters. In practice, this edict could tie up a vast majority of the utility issues that have been seeking a market, and it has at least slowed down many which have been floated.

This rule was adopted under a section of the Public Utility Act of 1935 which the SEC interpreted as requiring the commission to enforce arm's length bargaining between bankers and registered utility holding companies whenever there was any real or apparent affiliation between the company and any underwriter. This interpretation is a major storm center. The Investment Bankers Association is officially on record as contesting the fact that the holding company law, either specifically or by implication, imposes any such duty on the commission.

William Orville Douglas—He launched the wrangle over competitive bidding in 1937.

Even though the campaign for competitive bidding were never to be carried beyond the field of public utility securities, it would be a vital matter for the investment banking business. Actually, it probably is not far-fetched to say that most banking houses would have failed or gone out of business voluntarily over the last ten years had it not been for utility financing.

First of all, the utility industry had a vast expansion program under way at the end of 1929. The power and light companies had to float large bond issues in 1930 to meet most of the cost of the projects contracted for in 1929 in spite of the unfortunate turn business conditions had subsequently taken. Commissions on these flotations helped to buttress the banking houses against the devastating years that were to follow.

Next, the utilities discovered in 1935 that the country's easy-money policy had made it possible to refund practically all their outstanding bonds at very substantial savings in interest. Moreover, the holding company law was passed in August of that year, and there was a general scramble to refund before its restrictions became fully operative. This refunding contributed very largely to the sharp rise in total corporate new issues in 1935 and 1936.

More Utility Deals in Sight

Finally, in the last couple of years, utilities which sold low-coupon bonds in 1935, 1936, and even in later years have already found that they can refund once again at a further substantial saving, due to the sustained rise in bond prices. Moreover, several large pieces of business which couldn't be handled in earlier years, due to a variety of special circumstances, now are being readied for market.

Yet, even if investment bankers were to sit back and agree that public utility securities must go on the auction block (if only to placate the SEC) they would fight extension of the principle to other types of corporate finance. And they have reason to fear the spread, because SEC sponsorship of the bidding idea encourages houses that have been left out of any piece of business to snipe at the issue. A banking house which has spent $15,000 to $25,000 in setting up an offering—not to mention over-

head chargeable to such a deal—greatly resents SEC policies which encourage such sniping.

Under the circumstances, it is not surprising that a great many thousand more or less well-chosen words have been spilled on what Wall Street thinks of competitive bidding for corporate securities and on what Washington thinks of it. Aside from SEC points of view heretofore alluded to, there is the studious and comprehensive monograph opposing bids, written by Franklin T. McClintock of Harriman, Ripley & Co. a year ago last summer. This booklet, carefully prepared as it is, constitutes pretty technical reading for the lay student. Covering much the same ground in a more readable if less well documented way is "Competitive Bidding for New Issues of Corporate Securities" by Harold Stanley of Morgan Stanley & Co.

A somewhat less partisan analysis, "Investment Banking Under the Securities and Exchange Commission" (Vol. IX, No. 3, Michigan Business Studies) by T. Kenneth Haven, appeared just a few days ago. This is, in fact, a remarkably dispassionate study to come from the pen of one who is himself at present associated with an investment banking firm.

Studies Issues' Success

Mr. Haven's work is notable for its painstaking study of a broad group of new issues offered from 1934 to 1937, inclusive. He not only studied the operation of underwriting and distribution, but went on to determine by subsequent market records just how successful the flotation had been. He has made a careful analysis of underwriting "spreads" and commissions, underwriting contracts, and the losses sustained by bankers. He has made an effort to see just how real are bankers' risks and how much compensation they are entitled to for taking these risks. Although there is no indication that he so intended, the study might well be prescribed as required reading for the corporate executive who foresees the need of selling securities.

Yet, after this and all other existing literature on the subject is examined, there remains one important void in the whole discussion. There has been little real effort to spread on the record the convictions of corporation executives who feel that they have received services—which they could not buy—from bankers due solely to the fact that there has been a continuing relationship.

Joseph Weiner—Rule U-12F-2 is his baby to administer as director of SEC's utility division.

First off, let's discard one argument which seems simply to muddy the issue. That is the contention that you wouldn't look for a doctor or a lawyer or a dentist strictly on a price basis so neither should you seek an investment banker on price considerations but rather on the grounds of professional service. Now it is highly questionable if underwriting really deserves to be classified as a profession. The primary business of investment bankers is merchandising of securities; whatever they do in the way of counseling clients, professional as it may be, is incidental to that sales job.

Too Much Turnover?

In fact, critics of the investment banking business, as it is now run, charge underwriters with giving too much advice, with urging flotation of new securities for the commissions that can be earned rather than for the advantages that will accrue to the issuing corporation. There's a point that needs more controverting than any attacks on the professional status of the business.

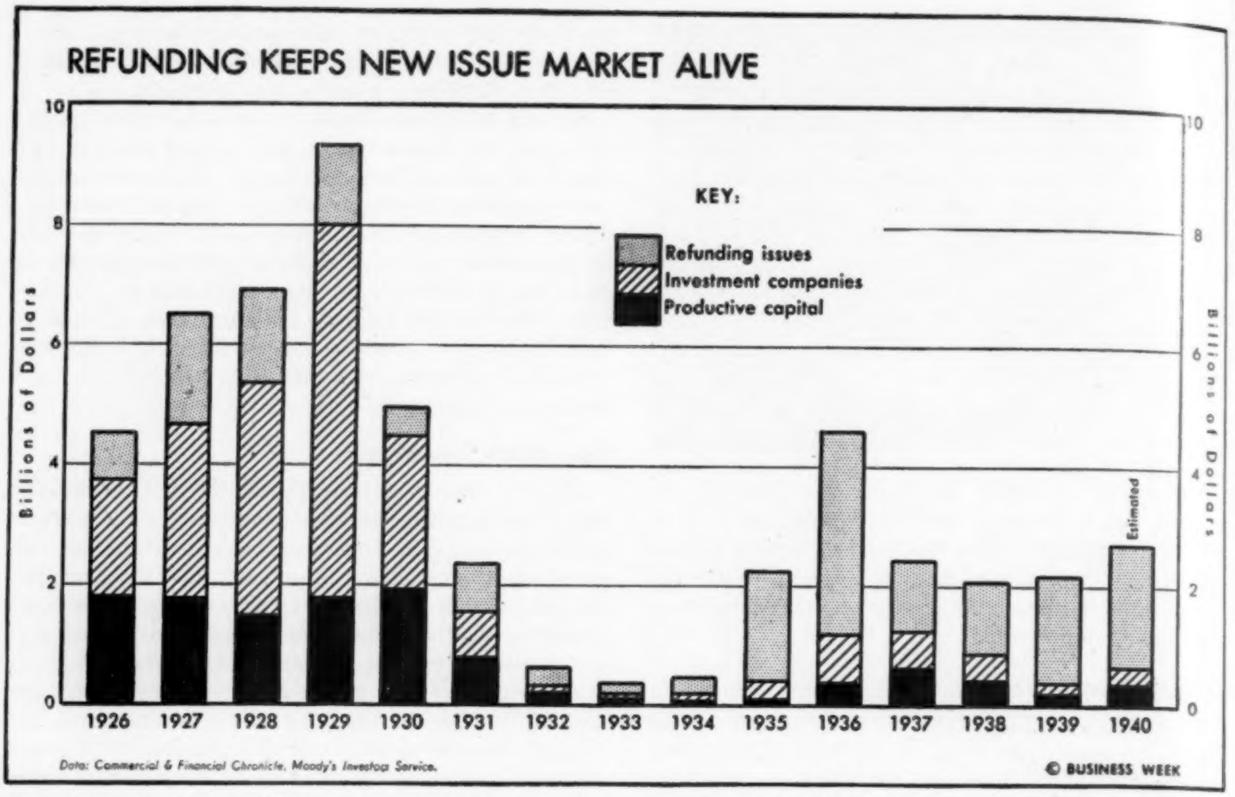
In an effort to get at the facts, you might take the case of Youngstown Sheet & Tube. That company has floated a considerable volume of securities over the last ten years, and it's worth a look to see whether its bankers simply earned a nice lot of commissions or if the company has realized benefits which far outweigh the payments made to underwriters.

At the end of 1931, the company had mortgage debt totaling $94,000,000 and bearing interest at the rate of 5%. This gradually was reduced through the operation of the sinking fund—and not without some drain on working capital—until it stood at $85,337,000 at the end of 1935, but the company meanwhile had contracted some $3,000,000 in bank debt. Net working capital had declined from $74,898,139 at the end of 1929 to $49,845,764 at the close of 1935.

Convertible Debentures Sold

The bankers could have suggested to Youngstown Sheet & Tube that the thing to do was to sell mortgage bonds in sufficient amount to fund the bank debt and raise any additional money needed for plant expansion. However, it was the considered judgment of the bankers —Kuhn, Loeb & Co. and E. B. Smith & Co. (E. B. Smith later entered into a merger which formed Smith, Barney & Co.)—the mortgage debt already was too heavy. Moreover, the stock market had perked up sufficiently to make convertible debentures plausible.

As it worked out, the company realized the wisdom of selling $60,000,000 of new 4% mortgage bonds and $30,000,000 of 3½% convertible debentures. In the spring of 1936 these issues were successfully marketed, and almost before the sales effort had been completed the price of the common shares had risen sufficiently to give the conversion feature on the debentures considerable attractiveness. Thereupon, the bankers urged the company to call in a block of $10,000,000 of the debentures in order to force conversion into stock. Later on, addi-



Investment bankers would have starved to death in the 1930's if it hadn't been for refunding of old bond issues. And they're afraid they'll starve anyhow if they have to bid competitively in the future.

tional calls brought about conversion of the remaining debentures, leaving the company with $58,500,000 of mortgage debt at the end of 1937.

It will be recalled that the markets turned very sour in the autumn of 1937. Going into 1938 the company was faced with a large outlay for expansion. Bank loans totaling $12,500,000 had been obtained, but that was substantially short of the amount needed while it seemed likely that any further bank borrowing would be accomplished only at somewhat unsatisfactory terms.

So the bankers were called in again. The decision was that $30,000,000 of new debentures should be sold, but it was deemed advisable to make them attractive by upping the coupon rate to 4% rather than basing the price too close to the then deflated market value of the common stock. This issue was successfully floated and the emergency needs for plant and equipment met.

Mortgage Refunded

By 1940 standards, the 4% coupon on the debentures didn't look so good, so on Oct. 1 of this year the company paid off one-third of the amount outstanding and replaced them with $10,000,000 of seven-year serial notes sold to a group of banks at an interest cost ranging from ½% to 2¼%, depending upon maturity. Similarly, the 4% interest on the mortgage was out of line with the going market for good industrial bonds, so the entire $55,000,000 of mortgage debt was called last month. To provide the money for its retirement, $45,000,000 of new 3¼% first mortgage bonds were marketed along with $10,500,000 of seven-year serial debentures. That's quite a string of financial transactions and, without some explanation of the why and wherefore, they probably don't make much sense. To start with, the company had a debt of $85,337,000 at 5% and $3,000,000 in bank loans at the close of 1935. Today it still has a debt of $85,500,000. On superficial examination this would seem only a trifling change.

Interest Costs Reduced

But now let's go a little deeper. The mortgage debt has been cut to $45,000,000 and the interest rate is 3¼% instead of 5% as it was back in 1935. The remaining debt is made up of $20,000,000 of 4% convertible debentures, serial notes for $10,000,000 and serial debentures for $10,500,000. Interest on the notes and the debentures averages out a bit less than 2% annually over their entire life. And the sinking fund on the $45,000,000 of new bonds doesn't begin to operate for seven years —not until after the serial notes and debentures have been cleaned up.

Thus it will be seen that the debt has been reorganized both as to the character of obligations and as to the schedule of sinking fund requirements. Even more important, there has been a striking reduction in the interest burden. The company was putting out about $4,500,000 a year in interest prior to 1936 and now it is obligated only to the extent of about $2,650,000.

Not only that, but the company has benefited from $30,000,000 of new money which was borrowed by

means of debentures and paid off in common stock—by the simple device of selling debentures for considerably more than the common stock would have brought at the time and then converting when the stock caught up. This new money has played an important part in the company's $100,000,000 expansion program over the last 10 years and in maintaining the financial health to such an extent it has been possible to build net current assets from the 1935 low of $49,845,764 to $72,373,814 at the end of 1939.

It's quite permissible to contend that all these things could have been done without a continuing relationship between Youngstown Sheet and its bankers, but anyone who wants so to argue might take it up with the steel company.

A Boost for the Banker

There are times when corporation executives feel that the bankers have earned considerably more than the commissions they collect. Such a case was that of the Kentucky Utilities Co., a subsidiary of the Middle West Corp.

Here was an instance in which the possibility of TVA competition and other intangible factors in the company's setup made it difficult to judge the market for its securities. The First Boston Corp., called upon to head the underwriters, found that Middle West favored $6,000,000 in bank loans and sale of $26,000,000 of first mortgage bonds, due in 1970, for its subsidiary. After some preliminary work, the investment bankers sounded out the big institutional investors and found that they didn't cotton to such an issue. The insurance companies, particularly, felt that an issue of such size with a 30-year maturity would be unattractive to them.

After these conversations, the bankers suggested that the company offer $20,000,000 of first mortgage bonds bearing interest at 4% and maturing in 1970 along with $6,000,000 of sinking fund bonds to be retired in installments by 1955, and a $6,000,000 bank loan. This plan was adopted and the $20,000,000 mortgage was snapped up, whereas it appeared that the $26,000,000 offering would have gone begging.

Testifying before the SEC in connection with this issue, Purcell L. Smith, president of the Middle West system, expressed the opinion that the work involved in marketing the issue justified more than the 2% commission which was paid to the bankers.

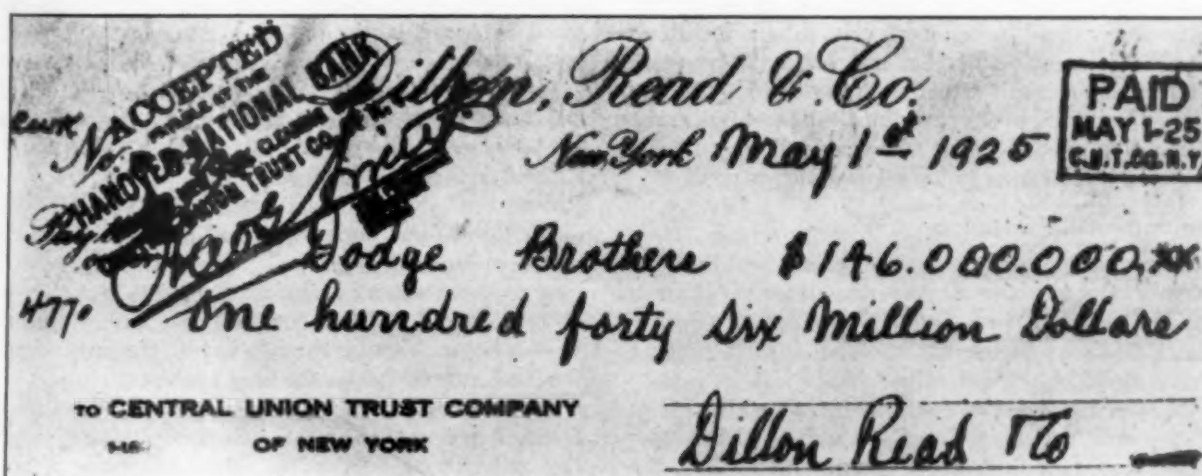
While on the subject of Middle West, it might be noted that the system has hit upon an interesting method in connection with its underwriting contracts. Various of its subsidiaries have sold bonds during 1939 and 1940 through underwriting groups headed by Harris, Hall & Co., Chicago; First Boston Corp., Boston; Glore, Forgan & Co., Chicago, and Bonbright-Harriman Ripley, New York. Two other Chicago houses, Halsey, Stuart & Co. and A. G. Becker & Co., have been principal underwriters on issues in previous years.

Here is how Mr. Smith feels about his underwriting arrangements: "We prefer to keep a number of leading houses interested in our finances without any definite commitment as to who will head the next syndicate. You might call our method 'an internal competitive group arrangement.'

Pick Best Suggestions

"When we have a financial problem we approach it in a way that would not be open to us if we used the competitive method. All of the houses that handle business for our group keep themselves informed on our properties and their problems. We discuss financing with half a dozen houses, pick and choose from their ideas, and form a composite opinion from the best that has been offered. Then we give the issue to one of these houses as head of the underwriting syndicate.

"In a seller's market, such as prevails at present, the issuing company can take pretty good care of itself with any kind of underwriting arrangements. But when the market goes the other way and is soggy, competitive bidding will lose its advantages for the issuer. And a time of bad markets is just when the issuing company needs the



Investment bankers do compete for new business. This check, one of the largest ever written, bought Dodge Brothers for Clarence Dillon—and it topped J. P. Morgan's offer by about $21,000,000.

best banking assistance, the greatest underwriting strength and ability it can obtain.

"If an issuing company has failed to establish during a seller's market the proper kind of relationship, it is not to be wondered at if the top-flight investment bankers are looking the other way when you need them. They very naturally would feel no duty toward the issuer and would be slow to undertake a responsibility that might involve large risks for the bankers."

Many are the stories that public utility executives could tell about their relations with their bankers if they cared to—but most of them don't want to get into an argument with the SEC on competitive bidding because they fear the punitive powers of the commission under the holding company law. There's one instance in which a holding company was negotiating a major piece of financing for a subsidiary. The bankers brought in no fewer than 30 different plans or variations of plans before they hit on one which impressed everyone with being just about as good as could be devised.

Price Benefits from Gossip

Before many days had passed, investors had heard pretty much the type of securities involved and the proposed interest rates. They began guessing at possible prices. Then came the neatest job of all. The underwriters, without committing themselves, began literally to talk the buyers' price ideas up a couple of points, and they got away with it. When everything was cleaned up, executives of the holding company admitted that the proceeds from this financing had exceeded their original hopes by an amount well in excess of total payments to the bankers for handling the business.

It's easy for opponents of the present underwriting methods to say, "Well, the bankers did nothing more than was their duty. And they got paid well."

In a sense, of course, that's true. But let's see how it would work out under competitive bidding. First, let's assume that the machinery for bidding was perfected to a much greater degree than is the case today. There would be, for example, organizations to perform the purely professional functions now carried out by bankers. These firms would provide engineers and auditors to go over the borrower's properties and books. They would have lawyers to work with the issuer's own counsel on registration forms, prospectuses, and the bond indenture. They would provide experts who could tell the company just what type of security the big investors wanted.

Problem of Registration

Either the company issuing the securities or this firm of advisers would have to guide the new issue through the SEC until the registration were declared effective and, a few days before the effective date, investment houses would be asked to submit bids.

Compare this process with that outlined in "Case History of a New Bond Issue" on page 43. It becomes apparent at once that, under competitive bidding, the issuing company pays all the expenses it now shoulders on the non-competitive basis plus those which customarily are shouldered by the underwriters. The advantages accruing to the company from competitive bidding therefore depend entirely on the price ultimately received for the new securities as contrasted with the price that could be secured through negotiation.

There is no use in arguing that the company would not receive more at auction for a specific bond issue than it would through negotiation. The banker would want 1½% or 2% or 2½% of the par value for his work if he handled the issue from the very beginning until the distribution was completed as in the case outlined on page 43. In submitting competitive bids for a gilt-edged bond the banker probably would get along on ½%.

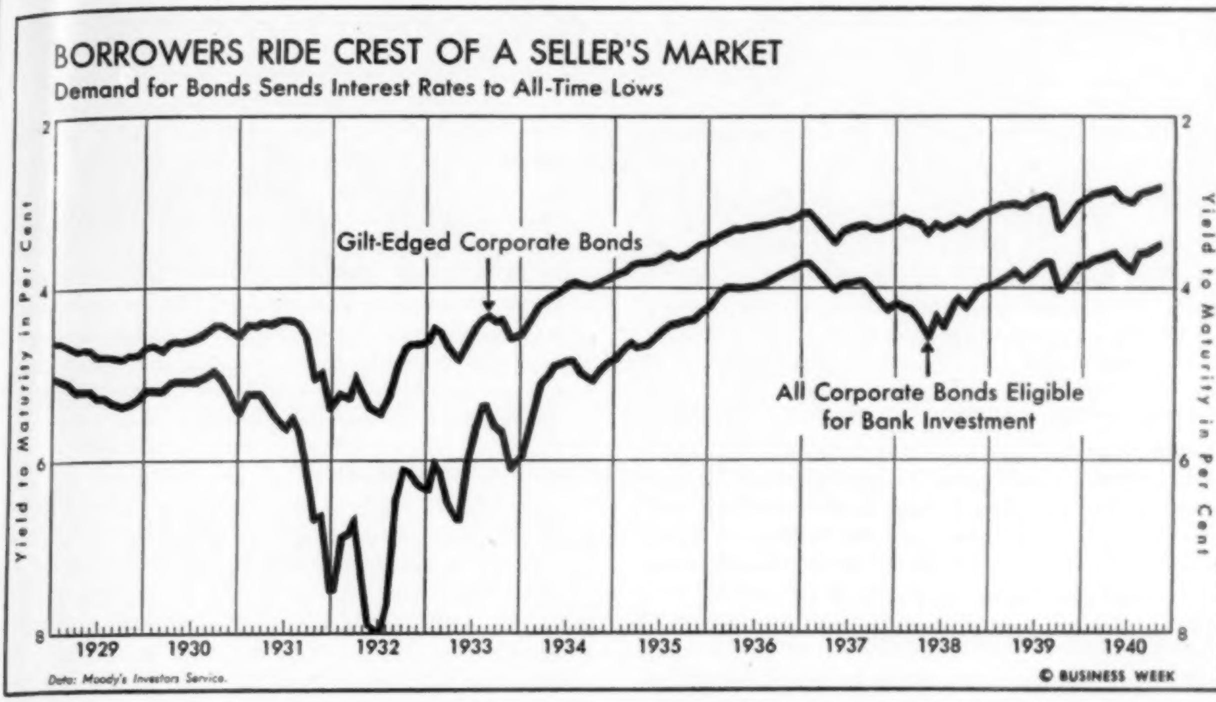
Considering the transaction on the basis of price alone, there are only a couple of weaknesses in the competitive arrangement. One is quite obvious—the fact that the issuer must assume expenses ordinarily borne by the underwriter which average between ¼% and ½% of the par value of the bonds. The second, and this is much less obvious, is that the outside advisers may not arrange a plan of financing that is quite as acceptable to the underwriter and to investors as would have emerged from negotiation, particularly if there had been a continuing banker-client relationship which had enabled the underwriter to learn all the strongest points in the company's position as an issuer. But it seems fairly clear that, if the issue of securities put on the auction block was not just about the best that could be set up, net proceeds to the issuer would be less through the bidding method than by negotiation.

Dealers Fear Effects

Advocates of bidding base their argument almost entirely on the fact that the company would receive more money through the auction method and that the cost of distribution would be reduced. They are inclined to gloss over the effects competitive bidding would have on the distribution system. These effects, in the opinion of many students of finance, would be pretty serious.

Fully to appreciate this situation, you must put yourself in the place of the dealer in your local community—a fellow of limited capital who may have two salesmen or may have 25. He seldom underwrites a new issue, and when he does it is usually the common stock of a local enterprise which is just emerging from the partnership category. He makes his living by distributing the bonds and stocks he can get from underwriting groups headed by Morgan Stanley & Co., Bonbright & Co., E. H. Rollins & Sons, Blyth & Co., Halsey, Stuart & Co., Kidder, Peabody & Co., and others. If these big houses didn't throw some business his way he couldn't make a return on his capital—particularly in a time when small, local concerns weren't financing, due either to market or business conditions. If he couldn't make a return on his capital, he wouldn't be there to handle the financing of the local company when the time was ripe.

There are about 6,000 of these dealers in the United States. A few of them make their living pushing securities of highly speculative character, others rely almost entirely upon sale of open-end investment trust shares. These few wouldn't be much affected by competitive bidding. The others, however, have a vital interest in it.



Bond prices have pursued their upward course—and yields have gone down—almost uninterruptedly ever since the federal government launched upon its easy-money policy. Industry, as a result, has found borrowing increasingly cheap; investment bankers have been able to market successfully most good issues.

Come back, now, to the underwriting group which has bought a hypothetical issue of high-grade bonds on a bid which allows a gross profit of perhaps half a point. This would be a fairly large syndicate and could easily sell the whole issue without taking in a nationwide group of dealers. And that's exactly what they would do. Their profit would be largest if they placed all the bonds with big institutional investors the same day that they were bought. If they waited even until the next day, in an effort to get wider distribution, there might come a change in market conditions which would turn their narrow profit into an important loss.

But even suppose that the underwriters could afford to waste a little time and form a selling group of 200 or 500 dealers. How much will the dealers get? Well, the underwriters are taking only 50¢ for each \$100 of bonds, and it is highly unlikely that dealers will be offered more than 25¢ (if that much) in view of the risk underwriters have to shoulder. On negotiated issues, dealers now usually get from 75¢ to \$1.

Thus competitive bidding would mean that dealers very rarely would be given any participation in issues that were acceptable to big institutional investors.

This means simply that dealers would take participations in nothing but semi-speculative and speculative preferred stocks and in common stocks. There is, to be sure, a much larger commission on this business than on bonds acceptable for institutional investment, but speculative securities are offered in quantity only in the latter stages of a prolonged bull market.

During periods of depression and of modest prosperity there would be nothing for most of the country's 6,000 reputable dealers aside from their precarious profits on over-the-counter trading in unlisted securities. Money for plant expansion is raised only when corporation managements see a chance for reasonable profit (see chart on the cover of this issue of Business Week). These "productive" issues have been few and far between since 1930. Refunding issues (see chart page 46) have been much more plentiful, but they are all of fairly high grade by the very nature of things. These refunding bonds are floated in volume during times of declining interest rates without too much dependence on the state of business. But, if the refunding bonds of the 1935–40 period had sold on competitive bids, dealers would have been left out. Then the federal government indeed would be having to put up the common capital for small industries—as has so often been threatened—because there would be no local dealers even to attempt the job.

How a Banker Can Help

Starvation for local dealers is not, of course, something that would take place overnight. Pending the time when a new type of concern is born to tell executives when and how to finance, most corporations will stick to their bankers. They know they'll meet problems too tough for the man whose mind must always be focused on manufacturing and selling. When these problems arise he wants the immediate counsel of someone he knows and upon whose judgment he relies—as was the case with the Crane Co. recently.

About four years ago Crane took an issue to Morgan-Stanley. Since then, two more issues have been put out through the same house. Most recent was \$10,500,000,

only a few weeks ago. This refunded an older issue at a lower coupon rate, and the deal demonstrated some of the advantages inherent in a continuing relationship.

Through the spring and summer of this year the market looked none too good for refunding, due to the turn of the war in Europe. Then, just at the end of September, prices spruced up substantially. But the only dates on which Crane could call for redemption its outstanding bonds were May 1 and Nov. 1.

Anyone familiar with the conservative policies of Crane Co. knows it would not call an old issue until it had the money in hand to redeem it. To make the Nov. 1 date, the entire deal would have to be put through in 30 days from the time of the first discussions. This is short notice when the transaction involves such meticulous operations as drawing up a trust indenture for debentures, registration with the SEC, preparation of the prospectus, and so on. (Always bear in mind that the company's officials, its directors, and the bankers are legally liable for any misstatement or failure to state any material fact in registering and in offering by prospectus.)

Acquaintance Solves Problems

It seems clear that unless the Crane Co. had elected to deal with the house that had been putting out its issues for the past four years it could hardly have got the transaction over all the necessary hurdles before the deadline. As it was, Morgan-Stanley and its legal counsel were familiar with the background facts on Crane. Thus, when it came to drawing up the complex trust indenture, the two sets of lawyers, the bankers, and the company executives were already old hands at dealing with one another.

They sat down to a table and settled it at one session with nobody finding it necessary to adjourn and check up on the other fellow. If it had been the first negotiation of this sort for these men as a group it probably would have used a week or ten days of the precious 30 days that were running against the completion of the deal. But familiarity enabled speedy progress throughout the financing. Actually, the issue was sold and the Crane Co. had the money to pay off the old bonds several days before the deadline of Nov. 1.

That Secondary Market

Aside from the practical considerations that have been cited to indicate the advantages corporations actually receive from the continuing relationship with their bankers, there are many arguments on the same side which are not entirely susceptible to proof. They should, nevertheless, be outlined strictly for what they are worth in any study of this sort.

Suppose, for example, that an issue doesn't sell any too well (that's no novelty even in these days when bonds are carefully priced, and presumably there would be a good many just a mite too high under competitive bidding methods). There is only one way to take care of a slow-moving issue. That's to support the secondary market insofar as SEC rules permit supporting purchases. But if the underwriter makes no more than ½% gross, he won't be paying much attention to the market after he is through with the initial sales effort (particularly in view of the fact that he has no continuing responsibility to the issuer). The general supposition is—and it has a good deal of support from past experience—that the issuer's credit will suffer if the secondary market for the issue is disappointing to those who buy at the offering price.

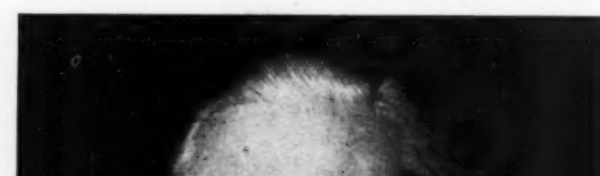
Similarly, it is generally contended that the issuing company benefits from widespread distribution of its securities. If an issue is sold on competitive bids, most of it will wind up in the hands of a couple of dozen institutions (anywhere from 60% to 90% of issues sold even under present methods will go to the leading insurance companies in most cases). There is small doubt that a company derives at least a little bit of helpful public recognition from nationwide distribution of its securities.

Publicity Advantages

Advertising of the new issue is held up in the same light. When an underwriting group is making 2% on the total issue, it prints the offering advertisement very widely. This, theoretically at least, is good publicity for the issuer, particularly if the securities are marketed with a fair degree of success. (And it cannot be denied that most of the financial pages in the daily press would be knocked deader than herrings if they did not have the monetary support of new-issue advertising.)

It is argued by the bankers, too, that competitive bids will result in "overreaching" on the part of the bidders and "crowding" the market in resale to the public. Does the issuing company, they ask, benefit in the long run from getting the highest possible price for its securities, or would it be better if it received ½% or 1% less in order that the underwriters and the investing public might be just a bit better pleased with their bargain?

The arguments go on and on, and become more and more intangible. Sooner or later it becomes a question of who can turn the best phrases, and the SEC won't



Emmett F. Connely—He has been running the Investment Bankers Association public relations campaign—and will be re-elected to carry on the job.

John O. Stubbs | J. K. Starkweather | Paul H. Davis | E. H. Hilliard | John S. Fleck

These official nominees for the five vice-presidencies will constitute the Investment Bankers Association's council of war, aiding President Emmett F. Connely in carrying on the public relations drive.

take a back seat to anybody in that art. The commission has given us "banker domination" and "conflict of interest" and "emoluments of control."

It was the SEC, too, that told the Temporary National Economic Committee how certain corporations' financing had been split up for years with the managing underwriters handing out slices to their friends and to banking houses that had done them favors. The commission outlined the way in which the financing of some companies had been "inherited" (as you might say that Morgan Stanley & Co. inherited United States Steel's business from J. P. Morgan & Co.). Peter R. Nehemkis, Jr., put into reluctant bankers' mouths the term "proprietary interest" in connection with business which these underwriters habitually manage. He undertook to prove that the power of the big boys to discriminate in parceling out underwriting participations was enough to keep others from competing for "proprietary interests."

Bankers Denied a Hearing

While this testimony was being presented, the Investment Bankers Association asked repeatedly to be heard. The bankers wanted, they said, not to negate the evidence that Mr. Nehemkis had so painstakingly prepared and presented but rather to put it in what appeared to them proper perspective. Their pleas were refused, so they decided it was time to take their case to the public.

Emmett F. Connely (who is scheduled to be re-elected president of the I.B.A. at its forthcoming convention and will be the first to succeed himself in that office in some 23 years) has been the spearhead of this drive. He has been ably seconded by such men as the nominees for vice-presidents—John O. Stubbs, Edward H. Hilliard, Paul H. Davis, John K. Starkweather, and John S. Fleck (not to mention Joseph P. Ripley who withdrew from the slate due to the press of private business, particularly the job of reopening the old Cramp shipyard).

One of the most constructive programs inaugurated by the present I.B.A. leadership is that which seeks to find out how much capital is invested in the business and how much of a return is made on it. Heretofore there has been a great pall of secrecy over these facts. Now they are being so tabulated by accountants that competitive secrets won't get out but the statistics, in the aggregate, will be made available.

In the past the basic data on how much money the investment bankers had, how they used it, and how much of a return they made upon it have been approachable only in a most hit-or-miss fashion. Mr. Haven's study gets at it as well as any, but he deplores the fact that he could get so little real information.

He goes into the financial statements of the five important investment houses whose figures are regularly made public, and concludes from their earnings that "spreads" on new issues are dangerously narrow.

Mr. Haven carries on to a conclusion—which seems entirely logical as he presents it but which opens an unpleasant prospect for present-day investment banking—that a basic change may be coming over the business. If the pressure for lower underwriting fees continues, he feels, the method of selling high-grade securities will drift more and more toward the English system. If that comes to pass, underwriting groups would buy the best issues on a very narrow spread, announce that the securities were for sale, and expect the large institutional investors to come in and place their orders.

That would mean larger and stronger underwriting groups, fewer local dealers in the business, and an increasing concentration of underwriting with the big eastern houses which now have the lion's share of the underwriting capital. As long as insurance companies and banks and trust funds are overloaded with money crying for employment, securities don't have to be "sold." And, if you don't have to beat the bushes for buyers, why should not underwriting commissions be pared to the barest minimum? This is the kind of question that grows out of the extraordinary 1933–40 bull market in bonds.

SEC at Cross-Purposes

This catches the SEC in the position of the circus performer riding two horses which won't keep in stride. The commission has encouraged the reduction of underwriting spreads (and spreads are materially lower than they were 10 and 15 years ago) and, at the same time, it has championed the local dealer. Yet no one knows better than the local dealer that he is going to lose out if the underwriting spread gets too thin to support nation-wide selling groups. If he hadn't known it, he certainly found it out when a competitive situation forced a sale of the recent San Antonio Public Service issue to a handful of insurance companies (BW—Nov.2'40,p54).

Of course, the bond market of the last few years has

created a distorted atmosphere around the whole underwriting business. The easy-money policy of the federal administration has resulted in the strongest bond market in all our history. Prices have gone up steadily except for a couple of drastic interruptions (see chart page 49).

When prices are behaving like that, underwriters' profits are bound to look pretty handsome—providing bankers can get anything approaching a reasonable volume of business. The natural thing is to conclude that the risks assumed in underwriting are negligible. It is possible for almost everyone, excepting those who were hurt, to forget the spanking losses taken by practically every major underwriter on the Pure Oil and Bethlehem Steel issues which went sour late in 1937.

Yet these losses were incurred in a protracted bull market for high-grade securities. It leads one to wonder what might happen if and when the return on money begins to rise or, inversely, when prices of the best bonds and preferred stocks begin to decline (which could happen right in the midst of this defense boom).

That is the kind of prospect which leads investment bankers to urge upon the SEC the use of discretion rather than hard and fast rules. It is the firm belief of most of the underwriters (Otis & Co. is a notable exception) that the continuing relationship between underwriter and client in no sense causes banker domination or eliminates competition for new issues.

Business Is Free to Move

This contention is based on two major premises. One is that no banking house really "owns" the business in which it customarily is the managing underwriter. Let it once fail to render good service, let some other house slip in with superior advice, let some guiding genius die or withdraw from the firm, and see how quickly the financing will change hands. The other is that the traditional underwriter is continually in competition with the market. When he makes an offer for any corporation's securities, he bases his price on the market for comparable merchandise which is quoted publicly. The management of the issuing company not only can but does compare prices. Due to the federal laws which require full disclosure of such facts, the issuer may also find out just how much commission other bankers have been receiving.

But suppose the executives of an issuing corporation were lax in comparing prices and spreads with readily available data on similar issues. The SEC, particularly in the case of public utilities, is in a position to delay the issue if not actually to tell the management to shop around and see if it isn't making a serious mistake.

The rules requiring full disclosure of all pertinent facts are applauded by investment bankers as much as they are by anyone. The fact that more information must be revealed makes underwriting easier.

This compulsion of full disclosure has worked notable improvements. No longer does a William K. Vanderbilt say, "The public be damned," to a reporter (or, as his apologists would have it, "The public be damned at 3 o'clock in the morning.").

The long-pending effort of investment bankers to secure amendments to the federal securities legislation may, on its face, look like a drive to reduce the amount of information given to the public. The proponents of these amendments, however, believe that although they would lessen the bulk of data required, they would not reduce the real disclosures. They would merely cut a good deal of the red tape which now makes financing expensive for a corporation.

This applies particularly to smaller issues. If it cost $75,000 or $100,000 to fulfill the registration requirements on an issue of $10,000,000 or $100,000,000 it will cost almost as much to do the job on an issue of $1,000,000. On a percentage basis, this becomes a fairly important impediment to the small issue. And it must be remembered that the banker has to have his 2-point spread on small issues as well as large—may even need more if the small company is not well enough known to assure its securities of market acceptance.

Private Sales Increase

That the present costs of registration, plus the legal liability placed on executives of a company for misstatement or failure to state any important and relevant facts, are driving issuers to short-circuit the SEC seems pretty obvious. There were few sales of whole bond issues to eight or a dozen insurance companies prior to the passage of the Securities Act of 1933.

The estimated 2½ billion dollars worth of securities thus privately placed with a few insurance companies in the last five years has, of course, meant a lot of lost commissions for underwriters. Many, if not most, were placed without payment of any fee to investment bankers. When the bankers were given a cut, it usually amounted to ¼% or less, and rarely came to as much as ½%.

These private sales may not seem, on their face, to have anything to do with the arguments pro and con on competitive bidding. Yet they do. The more business placed privately by underwriters on a commission of ⅛% or ¼%, the more nearly the market comes to the British system of underwriting. If fees are to be that thin, bankers will have very little interest in serving clients in times when the corporation has no securities to sell.

Yet even in England they're not so sure they like their own system. The "Committee on Finance and Industry Report" (commonly called the Macmillan Report) to Parliament in 1931 suggested that the close relationship of banker to client as it then existed in Germany and as it still exists in this country might result in "aid of very great value [to the corporation] in all financial problems. . . . "

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"New Money for Industry—The Investment Banker's Job for Management" is another of Business Week's special reports to executives. Copies will be available in reprint form. Single copies will be mailed to Business Week readers upon request without charge. Additional copies will be billed at the rate of 10¢ apiece; quantity-order prices by arrangement. Requests for reprints, whether for single copies or for larger quantities, should be addressed to Willard Chevalier, Publisher, Business Week, 330 West 42nd Street, New York, N. Y.

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LABOR & MANAGEMENT

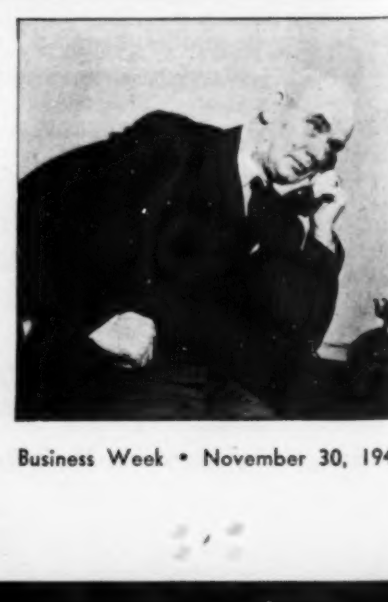
Left Wing Clipped

Murray election augurs peaceful expansion program for C.I.O., with a pipe line to the White House via Hillman.

While the American Federation of Labor gave over the last week of its New Orleans conclave to filling out the details of its legislative program and trying to effect a compromise between public demands for a housecleaning of racketeers and the right of each affiliated union to an autonomy which would keep the Federation a voluntary association, the C.I.O.'s executive board met to implement the mandates of its Atlantic City convention (BW—Nov.23'40,p15).

As spokesman for the C.I.O., newly elected president Philip Murray pledged a widespread organizing campaign. Yet those who immediately summoned up visions of violent scenes, who were reminded of the sit-down strikes in General Motors and the blood-letting in the "little steel" towns, may well be having needless nightmares. For Murray is after 1,500,000 new members in the next year without a major strike.

• Bent on Keeping Peace—The former Lanarkshire breaker-boy comes to the headship of the C.I.O. determined to keep the industrial peace. His career of labor leadership is a history of loyalty to the terms of collective bargaining agreements. He fought his own followers in the coal miners union when they did not live up to the "laws" set in labor contracts. As chairman of the Steel Workers Organizing Committee, a position which he will retain, Murray has championed union-management coop-



When Philip Murray was elected president of the C.I.O. he automatically became a primary subject of interest to news cameramen. His first encounter with the photographers was successful all the way around. The press boys found the soft-spoken Scot an agreeable subject, and Murray found they knew their business—as witness the flattering informal shot (right). Murray is adept at press relations, but a more basic guarantee of a good press for C.I.O. is his policy of organization without strikes.

eration. Men who have dealt with him find him intelligent, temperate, high-principled.

It is the temperate quality which attunes Murray to the times. He is extremely sensitive to the exigencies presented by the rearmament program and its consequent opportunities for union expansion. He may be expected to take full advantage of the situation but he will clamp down severely on action likely to embarrass production.

• **Ebb of the Left Wing**—Murray's rise in the C.I.O. marks the ebb of the left-wing's influence there. Harry Bridges on the West Coast, caught between the cross-fire of criticism by his own followers and repudiation by the new C.I.O. leadership, is losing his grip. Until the last day of the Atlantic City convention, Michael Quill, leftist chief of New York City's transport workers, went around talking about a subway strike. After Murray's election he issued a statement saying that he saw no reason why the dispute could not be amicably settled. This was a sign of the trend.

Between Murray and Defense Commissioner Sidney Hillman, who first presented Murray to the convention as candidate for leadership, there is the closest understanding. Through Hillman, Murray gets a pipe line to the White House. It will carry a flow both ways. Roosevelt may not get the organic unity of labor he has been calling for, but Murray's election promises a better-than-even chance for labor peace.

Bridges Too Fast?

Swing to new policy of anti-militancy is so rapid that rank-and-file may not follow him on new contract.

With Harry Bridges scrambling rapidly to bring the policy of his West Coast C.I.O. unions into line with the new anti-militancy program of the national body, as enunciated by President Philip Murray, waterfront employers in San Francisco were wondering this week if Bridges might not soon find himself away out in front of his own men.

The Bridges cohorts, brought up on a diet of raw meat for the last six years by the nose-thumbing Australian, are bewildered and suspicious.

Specifically, the union men are sore about several of the clauses in the proposed new contract which Bridges announced a fortnight ago (BW—Nov.16 '40,p34), bringing a 14-month dispute to a sudden surprise ending, and on which they soon are to vote in a coastwide referendum. They don't like those which permit employers to introduce labor-saving devices on the docks and which qualify their 5¢-an-hour increase

in wages with the provision that they will not go into effect until Feb. 1 and then only if the slowdown has been eliminated.

The Seattle local of the I.L.W.U., which already has called upon Bridges to resign as head of the organization, has come to be a focal point of revolt against contract ratification and last Saturday the membership bulletin published by Bridges' own San Francisco local included a sharp criticism of the Australian leader and the proposed agreement. Bridges even has thought it necessary to offer assurances to the waterfront employers, backed by assurances of C.I.O. national officials, that the pact will be ratified.

Big Stick Works

Applying Walsh-Healey Act penalty for first time forces capitulation of Lane Cotton Mills to demands of textile union.

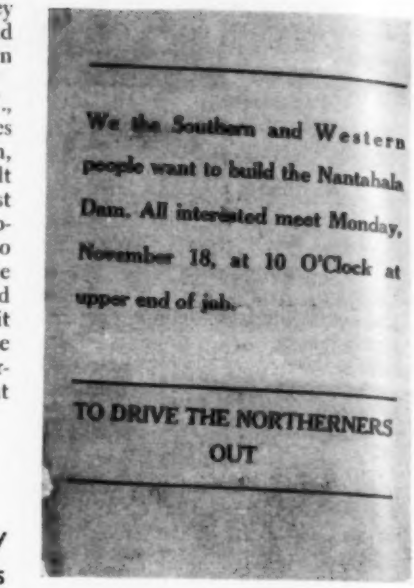
With announcement last week that a contract had been signed by the Lane Cotton Mills Co. of New Orleans with C.I.O.'s Textile Workers Union, a long dispute was settled and an unusual case was closed. Because the unions are now pressing a campaign to have the government withhold contracts from firms violating the labor laws, Lane may be a landmark.

In March, 1938, T.W.U. filed a complaint with the Secretary of Labor, charging that the company was violating provisions of the Walsh-Healey Act by non-observance of overtime rules and the employment of minors.

• Ordered to Desist—In June, 1938, the National Labor Relations Board, after hearing another T.W.U. complaint that the company was engaging in unfair labor practices, ordered the firm to cease and desist from interfering with the self-organization of its employees. In an election in 1937 the union, by a vote of 942 to 365, had been chosen by Lane employees as their bargaining agency.

In May of this year, the Fifth Circuit Court of Appeals upheld the petition of the labor board for enforcement of the Lane order. On Sept. 13, Secretary Perkins ordered that Section 3 of the Public Contracts (Walsh-Healey) Act should be operative against the company.

• First Use of Penalty—This was the first time that the drastic penalty contained in Section 3 had been invoked. It provides that the employer named shall not be eligible to receive any government contracts for a period of three years. After the Secretary of Labor's order came out, the company proceeded to confer with T.W.U. officials. Having a bargaining position that was practically impregnable, the union pushed its advantage and got the kind of contract union leaders dream of. Provisions: closed shop, check-off, arbitration of disputes, no lockouts, sole bargaining rights, streamlined grievance machinery, and a flexible wage clause.



CASUS BELLI

Civil war on a local scale broke out again last week in the hills of western North Carolina, resulting in a complete stoppage of work for several days on the new $6,500,000 dam on the Fontana River being built by the Nantahala Power & Light Co. to supply more power for its parent organization, the Aluminum Company of America (BW—Oct.19'40,p35). Crude, green handbills (above), asking for aid in the struggle "to drive the Northerners out," were distributed by embattled local workmen on the dam, who objected to the presence on the job of about 100 skilled laborers (out of a total of 700 employed), hired by the contractor, the Utah Construction Co.

Chrysler Huddle

Amending of contract is expected to be peaceful this year, with national defense an important consideration.

The Chrysler Corp. and C.I.O.'s United Automobile Workers Union went into a huddle this week over their joint labor contract. The agreement in

question was negotiated in 1937 and is non-terminating, with a provision for consideration of changes at this time each year.

The agreement has been amended each year, in 1938 peacefully, in 1939 after a major strike. This year the prospects for a peaceful settlement appear bright. For this there are three reasons: (1) national defense, and the importance of Chrysler in the rearmament program; (2) Richard Frankensteen, director for the Chrysler units of U.A.W., who has been tempered by the responsibilities of leadership; and (3) the comparative moderation of the union's demands.

• **What the Union Wants**—The basic union demand is for vacations with pay, a concession won from General Motors earlier this year. Beyond that the union is requesting a blanket wage increase of 10¢ an hour or pay adjustments, changes in the grievance handling machinery, a form of union shop, and protection for conscripts.

How watchful the union is of its prerogatives is indicated by the background of another subject which the negotiators will discuss: a joint hospitalization plan. Some time ago Frankensteen told the company that the union was considering various hospitalization schemes for submission to the company. He asked the company to familiarize itself with various going plans.

Shortly after this, without consulting union officials, Chrysler announced it had worked out a plan and was about to put it into operation. The union challenged this as unilateral action. At its insistence, President Keller of Chrysler had the personnel department withdraw the plan and announce that the subject would be taken up in parleys with U.A.W. It is unlikely the matter of unemployment compensation for Chrysler employees idle during the 54-day 1939 strike will be discussed. With an estimated $1,892,000 involved and the company's merit rating tax rate at stake the case is already well on its way through the courts (BW—May4'40,p31).

Peace at Vultee

Defense strike ends with pact setting up machinery for arbitration and giving C.I.O. edge over A.F.L. in drive.

Los Angeles shivered early this week in "unusually cold" weather. But inside Biltmore Hotel conference room No. 7, where officials of Vultee Aircraft Co. and C.I.O. United Automobile Workers were negotiating settlement of the strike which had tied up the Vultee plant and $80,000,000 of government plane orders, the atmosphere was decidedly hot.

The air would have been even hotter had the heat generated in Washington and elsewhere over the Vultee affair actually been felt in the quiet room where a small group of haggard, determined men continued their seemingly endless discussions. But the highly emotional demands in Congress for laws to outlaw strikes in defense industries, and heated arguments between Attorney General Robert Jackson and Congressman Martin Dies as to who first discovered "Communist influences" blocking a settlement, touched negotiators only when they emerged for a breathing spell between meetings.

• **Spectre of Nationalization**—The only effect of the uproar was to implant an uneasy dread that continued delays might give impetus to demands for nationalization of the aviation industry. That's why both sides breathed easier Monday when energetic, persuasive Dr. John R. Steelman, chief of the Labor Department's Conciliation Service, and R. J. Thomas, national president of the U.A.W. (fresh from talks with the C.I.O. high command), arrived in town.

The newcomers found negotiations stalemated over the proposal to include a no-strike clause and arbitration machinery in the contract. The wage issue already had been compromised. Vultee had agreed to start men at 55¢ an hour (instead of 50¢) and to increase pay to 62½¢ after three months.

• **New Viewpoints Help**—Tempo of the discussions was speeded up considerably Monday night by the presence of the two fresh viewpoints represented by Dr. Steelman and Mr. Thomas. Tuesday noon, just after President Roosevelt announced he was calling defense advisers for a conference on strikes in defense industries, weary negotiators emerged to report a compromise on the "no-strike" issue.

Under the arrangement, beefs will be presented weekly to management by a five-man union grievance committee. Any unsettled dispute will go to an arbitration board composed of two union men, two company representatives, and a fifth neutral member. Late Tuesday afternoon, strikers voted approval of the contract, which runs for 16 months. By Wednesday, they were on their way back to work.

• **C.I.O. Made Stronger**—Net result of the strike, stripped of the potentialities inherent in defense and Communist angles, is that C.I.O. is in a stronger position to compete with the A.F.L. Machinists' Union in a drive for members in southern California aircraft plants. That was the sole objective of the strike (BW—Nov.23'40,p56) and C.I.O. organizers now can point to winning an increase in base pay which undoubtedly will become standard throughout the area.

Last week the Army and the Defense Commission wrestled with the first strike to rise up and snag the defense program—and came off second best. Arnold Tolles (left), assistant to Labor Commissioner Sidney Hillman of the Defense Commission, and Major Sidney Simpson (right), aide to Assistant Secretary of War Robert Patterson, went to Los Angeles to handle the Vultee strike negotiations. But by the end of the week, Tolles had returned to Washington voluntarily, and Simpson had been recalled, following the union's charge that he became too "befuddled" to conduct meetings.

STRIKE AT ALCOA

Production on defense orders was suspended at the Aluminum Company of America's New Kensington, Pa., plant last week when 7,500 workers struck to protest the company's retention in its employ of a sheet-mill worker who had threatened a union committeeman. Although Alcoa took the position that the whole situation was an intra-union row, the Aluminum Workers' Union charged the company with "full responsibility." Federal labor conciliators have been sent to New Kensington by the Defense Commission and are busy, this week, conferring with both sides.

FINANCE

Bank Loans Up

Commercial institutions far exceed normal autumn business, with full impact of defense program yet to be measured.

One of the significant financial trends as 1940 goes into its final month is the sustained rise in loans to industry contributed by the country's commercial banks. By Nov. 13 the commercial, industrial, and agricultural loans of weekly-reporting Federal Reserve member banks in 101 cities had set a new post-depression record (BW–Nov.23 '40,p58); now the total has crossed $4,-900,000,000 with the velocity of the November gain the greatest witnessed during that month in many years.

These loans went up about $150,-000,000 in September and a further gain of more than $140,000,000 was recorded in October. During those two months the rise might possibly have been classified as a largely seasonal development—even though there has been the tendency to credit the defense program with a fairly important part in the trend.

• Tops Normal Rise—The November figures are the ones which carry the expansion out of the realm of "normal seasonal." Not only has the month contributed few important gains in bank loans during the last 10 years (and 1936 was no exception, its increase having been only $36,000,000) but even during the roaring 1920's it was quite common to witness small losses rather than gains in November. Contrast that with the increase of $135,000,000 in the first three weeks of November, 1940.

Now consider the total rise, September through November. It has amounted to $428,000,000 this year, and that is a jump of a shade over 9½%. There have been a couple of revisions in the method of compiling the figures since the 1920's so that exactly comparable statistics do not exist. Nevertheless, the old figures give a fairly representative idea of what happened to loans and the best September-November gain in the late 20's was a bare 4% in 1929.

• Trend Closely Watched—Thus it will be seen that the commercial banks have far exceeded their normal expectancy on new loans in the autumn of 1940. Economists who have been watching the trend with great interest in an effort to measure the defense program's impact will probably be even more attentive over the next year. For one thing, there will be the question of just how much of the banks' idle capital will be called upon by industry, and how much the banks can increase their earnings. Equally important, the volume of bank loans will lend a good deal of insight into the amount of private capital going into the program in contrast to public funds.

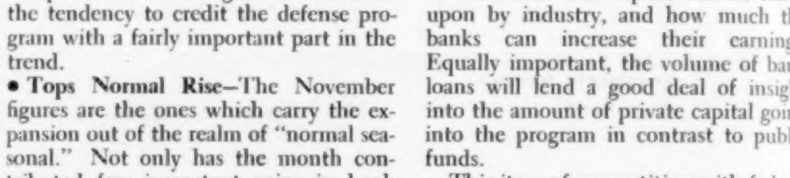
This item of competition with federal funds has been upsetting the bankers no

CUTTING RED TAPE

A question confronting many executives right now is how to cut the red tape of doing business with the government. One answer is to be forewarned of just how much and what kind of red tape he is going to have to cut. That's where the book, "Doing Business Under the Defense Program—A Handbook of the Laws Governing Practices During Rearmament," just published by the Bureau of National Affairs, Washington, D. C. (price, $1), can be helpful.

The book includes explanatory notes on various laws governing defense business, the text of such laws, and the text of forms and affidavits required by law. Subjects covered: (1) bidding on defense contracts; (2) negotiation of government contracts; (3) the financing of expansion of plant facilities to handle government work; (4) meeting special labor requirements of government contracts; (5) tax amortization on defense facilities; (6) handling sales contracts and other relations with persons in military service.

COMMON STOCKS—A WEEKLY RECORD



Data: Standard Statistics Co.

little ever since last week when Jesse Jones—in his capacity as Federal Loan Administrator rather than as Secretary of Commerce—wrote his little letter to the War and Navy departments and apparently put a ceiling on defense-loan interest rates. That letter (BW—Nov. 23'40,p54) pledged the Reconstruction Finance Corp. to lend at 1½% on War and Navy contracts on which these departments agreed to guarantee amortization on a five-year serial basis. And he said that no good defense loan should bear interest at more than 4%, even if the government did not specifically stand behind it.

• **Now Another Letter**—Mr. Jones had prefaced these terms with the remark that "it is desirable that the banks finance as much of the defense program as they can handle properly. . . ." Consequently, the banks felt that he had quite clearly told them the maximum rates of interest they could expect to ask unless they were prepared to have the RFC step in and take the business away from them.

This week Mr. Jones wrote another letter, this time to P. D. Houston, new president of the American Bankers Association. In this he undertook to clear up certain "misconstructions" that had been placed on his earlier epistle. He pointed out that the 1½% figure was mentioned only in the case of the term loans with the government's credit behind them. These, he reiterated, ought to carry interest at about the same rate as a 2½-year government security.

• **Fairly Specific**—All told, this new letter still left bankers with the feeling that they had had the law laid down to them on interest rates (although their loans which do not specifically apply to defense contracts presumably are not affected). Mr. Jones was fairly specific when he told Mr. Houston that "the RFC will be glad to participate with banks in making defense loans but the RFC will extend proper credit at appropriate rates to any reputable manufacturers who have defense contracts if such credit cannot readily be had from the banks."

Chain Bank Fight

Michigan branch system being built on legal loophole which may be plugged at next session of legislature.

For some months bankers have been saying behind their hands that the long-planned state-wide branch banking system for Michigan (BW—Jun.1'40,p45) was on ice pending the election, but that fireworks would be along right afterwards. Last week the first sputter came with public announcement by the

Bohn-Stoddard syndicate that it is going ahead with its enterprise, putting together as the Michigan National Bank the half dozen banks in which it owns majority control. After this publicity, explanatory letters went out to stockholders.

Head office is to be at Lansing, with branch offices at Grand Rapids, Battle Creek, Marshall, Saginaw, and Port Huron. (The First National Bank & Trust Co. of Kalamazoo, with $15,600,000 total assets, was not mentioned, but negotiations for its purchase from the Union-Guardian receiver are unofficially reported still going ahead.) Aggregate resources of the constituent banks are close to $60,000,000, which should make the new institution the state's largest outside of Detroit's big four.

• **Legal Loophole**—The legislature that drew the banking law of 1937 apparently intended to bar statewide branch banking, for it specifically prohibited establishment of branches. State Banking Commissioner Frederick B. Elliott, Jr., has maintained right along that the law prohibits branch banking, that he is in duty bound to fight to the last ditch. But the U. S. and Michigan attorneys general say that a national bank may lawfully take over existing state or national banks and operate them as branches in this state. The entire transaction centers on this loophole.

• **Feet under the Bed**—Feeling is particularly keen because Michigan bankers think they see New Deal feet sticking out from under the bed they are told they must lie in. Howard J. Stoddard, slated to head the Michigan National, was trained in the First National of Salt Lake City, a fountainhead of branch-banking religion. His cousin, likewise with this background, is Federal Reserve Board Chairman Marriner Stoddard Eccles, whose snorts at "unit-banking nonsense" have placed him near the head of the list of independent bankers' bogeymen.

• **A Race with Legislature**—Date for launching the new bank is presumably Dec. 31, since it should take until just about then to get stockholders' consents and go through all legal steps.

Nobody doubts that the Republican legislature, still mindful of the Union-Guardian Group débâcle of eight years ago, will act to plug the loophole as early as possible in the new session—unless Messrs. Stoddard and Bohn shall meanwhile have dragged their branch banking system through it. Best guess is that the new governor, similarly mindful, although Democratic, would sign such a bill.

• **Independents Get Busy**—Hence the unwonted rush of the independent bankers who, to counteract the attorney general's unwillingness to act, have reputedly raised a jackpot to pay for any litigation needed to block the plan off for a few weeks. Hence, also, outgoing Commissioner Elliott's zeal to throw injunctions and other legal hurdles in the way of the new institution. If only Elliott can get enough carpet tacks and broken bottles on the road to cause a few tire changes and delay the arrival of the Michigan National by a few days or weeks, he is likely to have the last laugh.

THE MARKETS

Stocks Slip Again

Stock prices go down too easily. That's the complaint of many who for a long time have been hopeful and who, at the middle of this week, had their hopes dashed once more.

In other words, England's large purchases in this country and our own defense program are resulting in volume but they also are producing some by-products which threaten to nullify the gains so far as the stockholder is concerned. That, as nearly as anybody has been able to explain it, accounts for the fact that the market has failed dismally in its effort to get back even to last spring's highs.

The factors most favoring a rise in stock prices, of course, are larger earnings and fatter dividend checks. Helpful, too, is the fact that London markets have been quite optimistic over the Greek news. And always in the background is the thought that inflation may sooner or later take a hand in prices of raw materials, finished goods, and common stocks.

The pessimistic side is represented by many factors, no single one of which would be nearly as important as the present trend of earnings and dividends but the sum of which seems so far to outweigh the favorable things. In the foreign field there are new disturbances in the Far East, uncertainties of a serious character in the Balkans and Near East, Britain's troubles from bomb and torpedo, and propaganda designed to lead us into the European struggle. On the home front, the biggest handicaps now are the virtual certainty of higher taxes and the probability of more and more government control over business.

In trying to figure out what's going to happen in this country, investors very naturally are studying the recent economic history of England and of Canada—whether they think we are going to get into the war or not. It is admitted at once that we have the advantage in raw materials and productive capacity over England, but it is generally felt that pressure is so great to get things done quickly that we'll hit plenty of bottlenecks.

Some already have been quite apparent. The result is that the government has worked out smoother methods of placing contracts so that manufacturers don't have to jump into the markets for raw materials in the helter-skelter way they did as recently as a few weeks ago. And, right along with this improvement in purchasing methods comes control—over prices in the first instance, but over manufacturing later on if necessary.

On the subject of taxes, it is agreed that the surest way to ward off the evils of inflation is to tax a part of the new purchasing power out of existence. While it is sounder to do this by broadening the income-tax base to clip most wage earners, it is much easier for elected representatives of the people to sock the upper brackets. People in the upper brackets naturally are those with the means to buy stocks if they could see a commensurate profit and who, at the moment, can't seem to see their way clear to go ahead with such purchases.

In spite of these facts it has been disappointing to watch prices slip from the 111.1 level of Nov. 9 to 103 at the middle of this week, with one of the sharpest setbacks coming last Wednesday. Even the November top of 111.1 fell a good bit short of duplicating the 1940 high of 122 set last April.

Security Price Averages

	This Week	*Week Ago*	*Month Ago*	*Year Ago*
Stocks				
50 Industrials	104.9	107.7	104.5	120.9
20 Rails	29.8	30.6	29.2	32.8
20 Utilities	55.3	56.9	60.6	69.2
Bonds				
20 Industrials	90.5	90.5	89.7	87.0
20 Rails	60.5	60.9	60.1	59.4
20 Utilities	100.4	100.4	100.5	101.9
U. S. Governments	111.2	110.9	109.0	106.9

Data: Standard Statistics except for government bonds which are from the Federal Reserve Bank of New York.

COMMODITIES

Higher Corn Loan

Farmers find new price and longer term of storage contract attractive, but other changes cause concern.

Wheat growers used to harvest their crop, then either sell it or store it in expectation of a better price. Now, they prefer to speculate on the future, put their crop in hock with Uncle Sam, and hope that inflation, war scarcity, or

other factors will strengthen prices. If the higher prices are realized, they will sell the crop and pay off the loan. If the price dips, they'll just let the government foreclose the loan.

Since June 18, the grower has been able to borrow 81¢ a bushel, Chicago base, on his crop. The cereal is being impounded at the rate of 1,000,000 bu. a day, even though the current market for cash grain is almost a dime above the loan value. Thus, there is an apparent scarcity at a time when the United States has quite a surplus on hand (BW–Oct.5'40,p59). Wheat under loan on Nov. 19 totaled 257,059,636 bu., about 90,000,000 bu. above the peak total for the whole of last season.

• Corn at Advantage—If wheat prices are to continue well above the loan price, it seems pretty obvious that the surplus wheat, in which the government had invested $185,448,094 up to Nov. 19, must either find an export market or remain in storage. The corn farmer, on the other hand, has a much better chance of cashing in on domestic prosperity. He never has depended so much upon export volume as has the wheat grower.

Moreover, the 1940 crop of 2,434,000,000 bu., is less than the estimated domestic consumption and exports for 1940–41 (put at 2,490,000,000 bu.) so he won't need the pledged crop to support prices. Overhanging the market, nevertheless, are 483,000,000 bu. from the 1938 and 1939 loan stock.

The Department of Agriculture last week announced that the CCC would lend 61¢ a bushel on the new corn crop, an increase of 4¢ a bushel over last year's loan value. But farmers are weighing carefully some of the changed provisions in this year's corn loan plan.

• Most Terms Satisfy—Several of the new contract terms seem all to the good. The period during which loans can be obtained has been extended from four to 10 months in order to maintain the price-strengthening effect of the loan throughout the corn marketing year. Also, the term of the loan has been extended to three years instead of one, although the farmer may redeem his corn at any time during this period by paying the principal plus 3% interest.

A bothersome clause of the new contract provides that the farmer must assure the government that he will have storage space for the corn for the three-year term of the loan. Apparently Commodity Credit finds that if corn isn't selling above the loan price at the end of a one-year loan the farmer simply says, "You can have it." The old corn is moved out and he uses the cribs to store his new crop—on which he gets a new loan. CCC is assuring itself that it won't have corn dumped on it because the farmer wants storage space for his new crop.

BUSINESS ABROAD

No New Models

Drastic order by Ottawa to conserve tooling facilities is believed to follow assurances of parallel U.S. action.

OTTAWA—United States exporters are likely to suffer, as predicted by Business Week (BW—Nov.9'40,p7), as a result of a new wartime ruling in Canada, and Dominion business realizes that from now on it is likely to fall rapidly into Britain's pattern of regimented war economy.

Because Canada's munitions plants are loaded to capacity with orders from both Britain and Canada, such a shortage of machine tools has developed that Ottawa officials felt obliged this week to decree that no new models of any appliances would be permitted next year in cases involving machine tools and skilled labor as important factors in manufacture. This applies to everything from automobiles to typewriters.

• Double Objective—Ottawa frankly admits it has a short- and a long-range objective in resorting to the new move:

(1) It will channel to the war industries the Dominion's entire home output and all imports of machine tools, dies, gauges, and patterns, and will free skilled workers for war industries.

(2) It will discourage unnecessary spending on consumer goods and conserve the public's money for war bonds and taxes.

United States business must necessarily view the week's developments with real concern, for unless the United States is prepared to take similar action, Canada will be forced to adopt prohibitive tariffs on imports of new models or see its purpose defeated by a flood of goods from south of the border.

• Parallel Action Foreseen—No official statement has been released by Ottawa, but in quarters very close to the Administration it is believed that this week's order was passed only after receipt of assurances from Washington that parallel action would be taken in connection with the United States' defense program. But in case Washington is forced to delay action, Canadian tariff authorities are hard at work on a new duty schedule covering railway coaches, automobiles, bicycles, refrigerators, cooking and heating equipment, sewing and washing machines, radio sets, vacuum cleaners, humidifiers, typewriters, and glass containers.

OPEN FOR BUSINESS

Shopkeepers on Regent Street, London's famous shopping district, have found a way to display their wares despite the fact that their windows have been blown out by bomb explosions. Instead of new windows, strong boarding material is put up containing a small area of glass for display purposes.

Japan's rapid plunge into a new era of seclusion, anti-foreignism, and self-reliance is dramatically illustrated in this Tokyo street scene. The polite bow of the lady with the sash (which identifies her as a member of a patriotic housewives' society) is only calculated to help put over a leaflet admonishing the recipient: (1) To "abandon reliance on Great Britain and the United States"; (2) to give up luxurious clothing, particularly of foreign style; (3) to behave "in a manner befitting a Japanese lady."

Japan Decrees "New Order"

Axis partner drafts economic pattern that would crowd foreign business from Far East and erect Nipponese monopoly, but failures in China give rise to skepticism.

TOKYO—Foreigners are reading into recent developments in Japan signs of increasing internal economic weakness (BW—Nov.9'40,p58), but they also discern an inevitable pattern of squeezing all but Japanese business interests out of the entire Far East if Japan—with the aid of the Axis powers—manages to come out on top in the struggle against Britain.

An All-Japan Economic Federation was announced in Tokyo this week with business leaders from every line of industry represented in it. This Federation is now expected to choose a "supreme economic council" which will report direct to the government and formulate the whole economic policy of the country.

• **Patterned By Mussolini**—Taking orders from this central control group will be seven subdivisions which will direct operations in the fields of transportation, finance, foreign trade, light industry, commerce, agriculture, forestry, and fisheries. Each of these functional groups will in turn set up regional control offices to carry out the demands of the A.J.E.F. It is Japan's version of Mussolini's corporate state and it is created now to mobilize all industry for direct aid to a badly pinched government.

Japanese executives and foreigners who were in the know viewed the whole project skeptically because the Tokyo government has attempted many grandiose schemes in the last few years and only a few of them have succeeded.

• **Two Monopolies**—On Nov. 12, barely two weeks before the A.J.E.F. scheme was announced, Japan observed the second anniversary of the establishment of the two gigantic Japanese development corporations through which newly-conquered China was to be made a veritable gold mine for Japanese investors (BW—Feb.19'38,p49). The record of one of them makes all Japanese executives skeptical of any vast new government project; the record of the other is a warning to American business of what is ahead in the Orient if Japan succeeds in establishing its "new order."

The North China Development Co., capitalized at ¥350,000,000 (the yen is worth about 23½¢), and intended to develop China's natural resources and so contribute to Japan's meager stockpile of war materials, has been a miserable failure.

• **Public Utility Corporation**—The Central China Development Co., capitalized at ¥100,000,000, and intended to serve primarily as a public utility corporation designed to bring in quick cash from going Chinese concerns, has succeeded in entrenching itself to the disadvantage of other foreign competitors but profits so far have been modest.

Coal production in North China according to the control plan announced at the end of 1937, was to be raised from 8,000,000 to 30,000,000 tons a year; pig iron output from 60,000 to 800,000 tons; and steel from little more than nothing to 400,000 tons. Equipment to produce 1,000,000 tons of synthetic motor fuel from coal was to be completed by 1942, and 10,000,000 tons of coal were to be sent to Japan. Capacity for generation of electric power by steam was to be raised from 160,000 to 410,000 kilowatts. In addition, 190,000 kilowatts of hydro-electric power were to be developed along the Yungking River.

• **Salt and Soda Ash**—Salt production, essential to Japan's chemical and synthetic fiber industries, was to be boosted from 1,120,000 tons a year to 2,500,000 tons, and existing plants in North China producing 80,000 tons of soda ash a year were to be enlarged to turn out 260,000 tons in 1942.

But despite these optimistic plans, little progress was apparently made during the first two years.

• **The Results**—The latest complete government information concerning the shipment of supplies which might be used on these China projects is for 1938 and included 554 automobiles, 381 chassis, 4 locomotives, 332 railway carriages and flatcars, 1,700 tons of boiler parts, 3,000 tons of electric motors and dynamos, 840 tons of transformers, 600 tons of metal-working machinery, 100,000 tons of cement, 3,000 tons of copper wire, 1,600 tons of nails, 700 tons of structural steel, and 113,500 railway ties.

In 1939, cement shipments to China increased to 120,000 tons, and exports of iron manufactures reached a value of ¥10,800,000, compared with ¥6,400,000 in 1938, and ¥2,700,000 in 1937, deliveries of railroad ties jumped to 642,000. Shipments of machinery, however, remained stationary in value and probably declined in volume.

The highly condensed statistics for 1940 do not provide many clues, except that cement shipments have almost stopped, while exports of machinery again failed to reach any level suggesting that large-scale industrialization is under way, but nearly 500,000 railway ties were delivered in the first six months of the year.

• **Small Investment Return**—Returns from these initial investments have not been large. In 1938, Japan obtained

only ¥10,500,000 of ores and metals from China, compared with ¥18,200,000 in the preceding year. Most mines are known to be out of operation because war damages have not been repaired, and iron production has not yet returned to pre-incident levels. The only exception seems to be coal.

Japan took 1,287,000 tons out of China in 1937, 1,621,000 in 1938, 2,434,000 in 1939, and 1,857,000 during the first six months of 1940. Most of the coal, however, has been supplied by an English concern, the Kailan Mining Administration at Kaiping, which expanded its mines with British equipment to meet growing Japanese demand.

• **Japanese Holding Company**—The position of the Central China Development Co. is different. Quick cash returns from existing Chinese businesses were and are the primary consideration. In the two years since its establishment, the company has brought under its control practically every Chinese corporate enterprise except those which managed to flee into the foreign-controlled areas or into Free China.

Government-owned Chinese utility and communications concerns were expropriated to compete, under Japanese management, with foreign enterprises. Every sphere of business activity has been placed under Japanese "guidance" or assigned to the Army.

• **Manchukuo Precedent Followed**—In dealing with vested foreign interests the pattern evolved in Manchukuo during the last eight years has been closely followed (BW–Jan.1'38,p34). Foreign concerns are still allowed to export Chinese produce, but they must buy from the Japanese monopoly organization and settle at an arbitrarily fixed exchange rate. This applies to silk, wool, cotton, bristles, and a score of other products. For a time, shipments of silk to the United States were banned altogether.

The foreign oil firms—Standard, Texaco, and Shell—are still allowed to import crude oil and gasoline, but inland transportation, storage, and distribution are being monopolized by the Japanese.

• **What's Ahead**—There is little room for speculation regarding Japan's intentions in China in the event of a complete victory or a permanent division of China into a "free" and a Japanese-dominated zone. All the resources of the country are to be mobilized for Japan's benefit. Foreign businesses will be admitted where their presence is advantageous, but very few of the vested foreign interests in China—electric power, railroads, bus and tram lines, retail trade, import and export businesses, processing and manufacturing plants, newspapers, hospitals—will qualify on this score.

It is true that Japanese leaders have repeatedly declared that foreign "enterprise" will be welcomed in China, but there is yet no indication that foreign investors will be tolerated in executive positions and in enterprises which are not to the liking of the Japanese.

Reich Housing Plan

Berlin makes a post-war promise: low-cost homes to raise living standards, give jobs to demobilized men.

BERLIN—Public disappointment over diminishing hope that the war would be over by Christmas is being counteracted by the widespread publicity given to the recent accessions of Hungary, Rumania, and Slovakia to the Rome-Berlin-Tokyo pact. In addition, government leaders are focusing public attention on post-war social and economic problems, with particular emphasis on the grandiose low-cost housing program recently announced by Hitler, which, together with the proposed old-age pension scheme, is advertised as promising to make the Reich the "world's most progressive social state."

The housing program, which is aimed at providing better and cheaper dwellings for families with many children, will start off with the construction of 300,000 homes in the first year following the war. Some 10,000,000 new

homes, all built with the greatest possible standardization, are to be built in the 10 years the plan covers. Financing of the huge program will be partly by private business, but the Reich will participate in the financing in order to lower rentals to the level of the incomes of the families for whom the homes are intended. Rents would be around $16 per month for four-room apartments.

Initial cost of the program is estimated at 4,000,000,000 marks annually. Together with the cost of the old-age pension plan, the proposed social program would come to 7,000,000,000 marks annually—which is equal to half of the present large tax revenues of the Reich. Another plan of the post-war housing scheme is to absorb demobilized soldiers on the construction projects.

Argentine Crisis

War squeeze on foreign trade creates critical situation in Argentina. Nation wants loan from U.S., has recovery plan.

BUENOS AIRES—Evidence is continuing to pile up as to the critical nature of the economic difficulties faced by Argentina as a result of the war. No Latin American nation has been as hard hit by the trade dislocations caused by the European conflict, since approximately 80% of the Argentine economy is based on foreign trade. The conquest of France and the resulting British blockade of the continent automatically shut off the 35% of Argentina's total export market, represented by Belgium, Holland, Germany, France, Italy, Scandinavia, and Spain.

Great Britain remains as the country's biggest single customer, but Argentine credit balances are blocked in London, leaving increased purchases of British goods against the credit balance as Argentina's only method of getting payment for shipments to England. And British goods can't be supplied in quantities large enough to balance payments.

• **The Problem**—Basically, Argentina's increasingly bad foreign exchange situation goes back to the failure of the triangular trade setup which has prevailed between Argentina and Great Britain, Great Britain and the United States, and the United States and Argentina. Traditionally, Argentina's favorable balance of exchange with regard to Britain created a surplus of sterling exchange which, when converted into dollars, supported an unfavorable trade balance with the United States. In addition, this arrangement made it possible for Argentina to maintain an unbroken record for debt service on its obligations held in the United States. Approximately $20,000,000 is required annually for servicing of these loans.

Britain's decision to block exchange payments owed the Argentine meant that sterling was no longer available for conversion into dollars. At the same time, debt service charges payable in dollars continued and, even more important from the standpoint of the balance of payments, Argentina became increasingly dependent on the United States as a source of essential equipment formerly purchased in Europe. Increased Argentine buying of railroad equipment, utility replacements, motor trucks, machine tools, road graders, oil refining equipment, etc., raised the total of Argentine purchases in the United States for the first nine months of 1940 to $91,062,000. During the same period, United States imports from Argentina reached $59,777,000, leaving a balance in favor of the United States of $31,285,000.

Dr. Pinedo, Argentine Minister of Finance, has estimated that the adverse balance of payments for 1940 would amount to $108,000,000. This would absorb all free exchange and require shipments of $30,000,000 of gold to settle accounts. Estimated import requirements from the United States for 1941 come to $178,000,000; with sterling exchange blocked and European markets closed, the continued predominance of imports over exports threatens depletion of Argentina's entire gold reserve of around $340,000,000.

• **Some Solutions**—Argentina's precarious economic situation is being attacked on two fronts. One scheme involves a loan estimated at $100,000,000 from the United States, which is aimed at easing the immediate situation; the other is the so-called "Pinedo" plan, a far-reaching internal recovery program similar in some respects to the New Deal in the United States but also designed to lessen the country's dependence on uncertain markets. The "Pinedo" plan is before the National Congress for approval.

Under the plan now being discussed in the United States, the $100,000,000, or whatever sum is finally agreed upon, would be used to repatriate Argentine bonds now held in England. The bonds would be returned to Argentina to pay for shipments of cereals, meats, wool, etc., to Britain during the coming year.

• **Recovery Plan**—Dr. Pinedo's recovery plan calls for government purchases of exportable agricultural surpluses which have accumulated because of the loss of European markets; the expenditure of $35,000,000 to $50,000,000 on low-cost housing projects, on the theory that prosperity in the building trades is reflected throughout the national economy; stimulation of industrial production to compensate for the decline in farm income; and negotiation of new trade agreements with other South American countries to increase commerce within the continent. Financing of the plan is to be accomplished by a compulsory loan of around $300,000,000 to be derived from savings deposits in all private banks.

TECHNICAL ADVISER

Sir Hugh Dowding, shown here with the King and Queen on a tour of the R.A.F. Flight Command headquarters as Britain's Air Chief Marshal has been directing the aerial defense against the German air force. Last week he was chosen to come to America, where he will serve as chief technical adviser to the British Air Commission. It will be his job to try to speed production and improve the design of planes being bought here.

PROFIT & LOSS

Cover Man

We know what happens to girls who get their pictures on the covers of Life. They get proposals, and propositions. We know what happens to children and dogs who get their pictures on the covers of American Magazine or the Saturday Evening Post. They get asked for reprints. But what happens to the business man who gets his picture on the cover of Business Week? It costs him $15. Or it did, in the case of Mr. G. J. Brooks, a negotiator for the San Francisco Employers' Council. His picture appeared on the cover of the Oct. 26 issue. He was sitting at a desk, negotiating with a union man.

Because Mr. Brooks belongs to a number of service clubs (Kiwanis, etc.), and because these clubs always fine members who achieve any kind of distinction, Mr. Brooks has shelled out $15. His boss wouldn't let him put it on his expense account either.

There was some balm in Gilead for Mr. Brooks though. As a result of that cover picture he got a free bottle of ink. The picture showed a Carter Cube-Well inkwell on his desk. It was empty. The Carter Ink Co. took pity on Mr. Brooks and sent him a full one.

All this will probably cost Mr. Brooks another $15.

Shelter

Readers of the publication Iron Age don't often get a shock like the one that greeted them on the inside front cover of the Nov. 21 issue of that magazine. It was a full page ad for air raid shelters. Against a black background, there was a drawing of a cozy little shelter, set well underground and reached by a flight of concrete steps, fitted up with a complete kitchen and a dining room, with a long table and padded seats. Bombs were bursting in brilliant red all around it.

It's the first ad for a shelter we've seen Over Here. And it's the first to be run by this particular company—the Wean Engineering Co., of Warren, Ohio. A couple of years ago Wean furnished some machinery for a steel company in England, and when Wean's engineer went over to erect the machinery, he found that it was going to be used for producing steel to go into the manufacture of Air Raid Protection products. When various types of shelters produced prior to the actual start of the war proved to be inadequate in the violent air raids on England, Wean started to work on the design of an adequate shelter for individual use.

Wean figures that a unit 8′ x 12′ will serve as a family unit. These will

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be furnished with or without living facilities—as desired. They will be prepared and shipped in knocked-down condition, all ready to be put together. No one piece will weigh more than 100 lbs., so the shelters can be put up without a crane or any other heavy lifting facilities. The units will be made in multiples so that factories or fortifications can get 16′ x 24′ shelters or 24′ x 48′ shelters.

Though no shelters have been built yet, Wean is considering building one unit and offering it to the American Legion or the local National Guard, for use as a recruiting hut.

Not that Wean expects the U. S. to be bombed tomorrow. It just figures that "the outlying islands and possessions of many of the democratic countries which may come within the scope of desirable territory of aggressor nations" ought to be likely markets for shelters now.

Christmas Ties

Sulka, the Fifth Ave. haberdasher with the busy press agent, is getting in its licks early this season on the subject of Christmas ties. There's nothing to worry about any more, Sulka says, because a designer in its employ—a world-famous fellow we never heard of named Monsieur Briallon—claims that the Christmas tie problem is no more complicated than knowing the birthday of the guy who's going to get the tie. Nobody can give you a tie you don't like as long as they know your birthday. It works out by astrology. Certain colors go with certain signs of the zodiac. Our birthday falls between Aug. 24 and Sept. 23. That's under the sign of Virgo. Our colors are blues, coral and beige, and other famous Virgoans besides ourself are J. P. Morgan and Joel McCrea. Well, to show you how nicely the Sulka system works—anyone who gives us a blue, coral and beige tie this year can be sure it will be going where it can be appreciated—we'll cut it in two and send half to Morgan and half to McCrea.

Crowning Touch

A coffee shop in Minneapolis not only advertises a special sandwich with the unappetizing name of "Dagwood Bumpstead," but, because it's got onions in it, the thing is served with a stick of clove gum.

In Your Hat

The Retail Executive, a publication which keeps up with all the new style trends, reports that Saks-34th St. in New York is going great guns with a Penwiper Personality Hat. It's trimmed with a real quill, with a pen in the end for writing. No inkwell though.

THE TRADING POST

On Latin American Trade

Every time I read something new about trade with Latin America, I recall a talk I had not so long ago with a man who has lived with Latin American trade for many years, first as a salesman on the ground, then as an export sales executive. So his views are not of the political, academic, or swivel-chair vintage.

Of all he said I remember most vividly his insistence that if we expect to sell anything there we must find ways to buy things there. And that, he felt, cannot be left to chance and the individual. We need, he said, authoritative and objective surveys, backed by manufacturers and consumers, to find out just what additional imports we can take from those to whom we would sell.

And the findings of that survey would have to be strongly backed. First, they would have to be defended against the organized bloc pressure that is sure to be invoked against any governmental action that encourages additional imports of almost anything. Second, some real advertising in the American fashion would have to be done to popularize the products with our people. Right here would be a field for aggressive co-operative effort by importers.

* * *

He urged also individual treatment for Latin American problems. We think too much, he said, about Latin America as a collective whole. After all, the countries of Central and South America are separate countries. They are separate markets and separate sources for a diversity of products. Their peoples do business according to their own laws and trade practices. Argentina, Peru, Brazil and Chile are just as distinct markets as Canada, Australia, New Zealand and South Africa. We don't try to plan our trade with the latter countries under any blanket attitude toward something we know as "British-American trade."

Emphatically he did not subscribe to the notions held by some employers in this country that Americans working in Latin-America spend their days and nights in "bar-hopping." Contact with thousands of them has convinced him that, on the whole, our compatriots do a bang-up good job, that it isn't necessary to hire Germans, Englishmen or "locals" to sell American merchandise in Latin-America. What "bar-hopping" is done, he declared, is done to good effect—at least it is as productive as the domestic brand. He could not recall finding many European products represented by American salesmen down there, and in these times he felt that it is important to keep our own products in the hands of representatives whose loyalty is beyond question.

That led him to the observation that more American boys and girls should study Spanish and Portuguese and that we should exchange many more students with Latin American countries. In this connection, a report on New York City high schools recently showed that many more of our young people now are going in for Spanish as against German.

This man felt that goodwill is a lot more than the mouthing of fine phrases about "good neighbors." A neighbor, he said, is only as good as his actions. And on this count he felt that some of the Latin American governments could do a lot to cut down the nuisance of doing business within their gates. He thought that the Latin American coming to this country has a cake-walk as compared to the American traveller suffering from a plague of "cedulas" and periodic reporting to the police. The Latin American business man, in his judgment, would feel a lot more goodwill for his North American opposite number if his own government made it easier for him to do so.

* * *

Most practically pertinent, perhaps, were his comments on executive contact. Up to a year ago, he said, most of the export attention of American business quarterdecks was concentrated on Europe. When presidents and vice-presidents "went abroad," they went to Europe. Latin America was left to the export managers. That, he conceded, is all right, so far as it goes, but he was strongly of the opinion that goodwill in Latin America can be substantially furthered by more contact in Latin America between our industrial leaders and their customers there. A share of the executive time and concern hitherto allocated to Europe will bear proportionate results if spent on Latin America. Export managers, he advised, should now be putting the heat on their top executives to visit Latin America with them. It's all the more in order since there's not much they now can do in Europe.

Thus one man sizes up a job on which he is well versed. And from my visit with him I took away a feeling that trade with Latin America, despite all the political and sentimental ballyhoo, must stand or fall by about the same standards as any other business. The people there will buy from us if we buy from them, and then only if our products are as good and as cheap and if our terms are as liberal and our deliveries as prompt as those of our competitors. As he sees it, business is business in any man's language. **W. C.**

THE TREND

AS PRIORITIES PYRAMID

For six consecutive months steel operations have run above 80% of capacity. Seven months ago this would have been well-nigh unimaginable. It was customary to say that the steel industry was overcapacitated; it was common talk that American plants were easily capable of supplying any foreseeable demand. But now the conversations at luncheon tables, in policy-making sessions of industrial managers, and at weighty meetings of national defense commissioners in Washington are concerned directly with the nation's capacity to produce. Can our manufacturers, and our railroads, and our workers do the job that clearly lies ahead?

• **As yet no answer** is available; Washington is still occupied with assembling the raw data on how many skilled workers are available, how much marginal plant can be put into service. And it is premature for economists and statisticians, who in normal times would be conservative in their prognoses, to issue warnings that the horrors of regimented economy are ahead. That priorities will have to be enforced is a foregone conclusion. The current discussion over whether airplane manufacturers should stop producing commercial planes and concentrate entirely on fighter and bomber constructions exemplifies to what lengths government can and may go. However, it is to be observed that priorities are unlikely to extend to everything; in general they will be confined to certain crucial and key industries—the "bottleneck industries."

It would be foolish, for instance, to talk of priorities in cotton cloth manufacture when the looms of cotton cloth manufacturers are not fully occupied. Likewise, the automobile industry is not saturated with orders. It has the capacity to turn out automobiles as well as munitions. It is true, of course, that the automobile companies may not get the machine tools necessary for remodeling cars next year. But this is a priority of a special order. It does not stop auto companies from manufacturing autombiles. The restriction is qualitative rather than quantitative, affecting the kind, not the number, of cars.

• **And this distinction** should be carefully observed in all analyses of what government priorities may mean to business in the future. Will the restrictions affect the kind of goods produced or the amount? Later on, for instance, it is conceivable that the steel industry will not be able to turn out enough steel for both the munitions makers and the producers of "peacetime" goods. In this case steel might be allotted sparingly to manufacturers of passenger cars and the number of cars would be limited. Then, with perhaps not enough cars to go around among prospective buyers, the available supply would, in effect, be allotted in the open market to the highest bidders. Prices would rise.

The effect of priorities pyramids, especially as their number increases. Here's an illustration of what can happen. A manufacturer of textile machinery has a design for a new and speedier model. He needs machine tools to turn it out, but he cannot get them. So he continues production of the old model. A textile manufacturer, simultaneously, is operating obsolescent machinery at capacity, would be willing and anxious to purchase the machine that's still on the drawing boards. Here the priority—at the bottleneck—puts a ceiling on the textile manufacturer's capacity to produce; he cannot get the machine he wants by bidding up the price in the open market. The price system of allocation of goods and services gives way to the priorities system. (And, parenthetically, when a Knudsen or a Stettinius goes to Washington to serve the government at a nominal salary, the priorities system—not the open market—is at work.)

• **In the next few years,** a schism in our economic ways is inevitable. Some prices will be "free"—for them, supply and demand will be a determining factor—and other prices will be influenced directly by government action. But this, by itself, is no cause for declaring that this is the beginning of the end of the old order. Let us not forget that the "free market" of Adam Smith has been dead for many years. From its earliest days, the government has influenced prices in numerous ways—through tariffs, through its farm policy, through interstate commerce and other legislation. And business men, too, through follow-the-leader price policies, have diverged from the true competitive price system that Adam Smith wrote about.

• **Thus, to talk of priorities** as the ruination of the free market is to ignore economic history. Moreover, priorities are not new. They were in force during the World War, and business managed to recover from them. The nub of the problem is this: At times the price system does not operate for the greatest good of the greatest number; at times this becomes self-evident and the government decides that certain goods and services must be made available for special purposes—in this case for national defense. At such times, priorities, instead of prices, determine the distribution of certain types of goods. And of course, in the process some industries and some companies will get hurt more than others. But from that it does not follow that the fingers of government will reach everywhere. Rationing steel does not directly or perceptibly affect the price of butter.

The important thing to remember is that priorities are of two types—qualitative and quantitative. And it is not until priorities become quantitative in their effect, not until they begin to restrict the total output of peacetime goods, that the danger of a rapid rise in prices becomes imminent.

The Editors of Business Week

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